MONTHLY ECONOMIC UPDATE & OUTLOOK

SEPTEMBER 2023

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

Contents

Executive Summary

The global economy is showing signs of an upturn, poised to grow faster than it was projected in the first half of 2023. Nonetheless, these improvements remain fragile with a slower economic rebound in China, persistent core inflation, elevated interest rates, and lingering geopolitical uncertainties continuing to exert pressure on economic activities.

Since the beginning of FY2024, Pakistan's economy stepped up on the recovery path. In August FY2024, month-on-month exports increased by 14.2 percent while imports grew by 2.1 percent for the same period. The upturn in the global economy coupled with relaxed import restrictions, is mitigating disruptions in the supply of raw materials and supporting export-oriented industries. FDI also increased by 16.1 percent during Jul-Aug FY2024 on account of rise in Chinese investments and exchange rate stability.

In the agriculture sector, the arrival of cotton in September 2023 posted a remarkable growth of 79.9 percent to 3.93 million bales compared to 2.19 million bales during same period last year. This surge reflects a growing focus on enhancing cotton production which is encouraging for the export and overall economic outlook in FY2024.

The large manufacturing scale sector (LSM) is recovering from slump. Although LSM remained negative in July FY2024, however, 09 out of 22 sectors picked up positive growth including Food (10.0%), Tobacco (54.0%), Wearing Apparel (30.8%), Pharmaceuticals (54.0%), Chemicals (5.9%), and others. The better input situation through lifting of import restriction paving the way of sectoral growth. However, several sectors are still under pressure as tight financing facilities and inflationary pressures persistently hinder their production activities.

CPI inflation recorded at 27.4 percent on a year-on-year basis in August 2023 as compared to 27.3 percent in August 2022. On a month-on-month basis, it increased to 1.7 percent in August 2023 compared to an increase of 3.5 percent in the previous month. The government's stern administrative measures to curtail the hoarding of commodities and foreign currency measures resulted in moderating the inflation pressure. However, given the international oil price pressure and adjustment in energy prices, uncertainty in inflation will remain.

On the fiscal side, the fiscal deficit in July, FY2024 remained 0.2 percent of GDP almost the same level as last year whereas the primary balance surplus improved to Rs 311.2 billion from Rs 142.2 billion last year. The improvement in fiscal accounts is attributed to a significant upsurge in net federal revenues, which outpaced the growth in total expenditures. Net federal revenues grew by 66 percent largely primarily driven by a notable increase in non-tax collections, particularly stemming from higher receipts related to the petroleum development levy. On the other hand, new tax measures and increased collection from import-related taxes contributed to raise tax collection. Within expenditures, although markup payments grew by 52 percent, non-markup spending was reduced by 48 percent. This reduction in non-markup spending played a key role in improving the primary surplus during July FY2024.

The Current Account posted a deficit of $ 935 million for Jul-Aug FY2024 as against a deficit of $ 2.0 billion last year, largely reflecting an improvement in the trade balance. During the same period, workers' remittances recorded at $ 4.1 billion ($ 5.3 billion last year), decreased by 21.6 percent, mainly on account of slowdown in the host countries, and the wedge between the exchange rate in interbank and open market.

MPC has maintained the policy rate at 22 percent in September 2023, on account of an improved inflation outlook. During 1st July – 1st September, FY2024 money supply shows negative growth of 1.8 percent compared to negative growth of 1.3 percent during the same period last year. This is due to decline in the NDA of the banking sector.

The government is laying the foundation for short to long-term measures that will improve the near-term economic situation during FY2024.

International Performance and Outlook

The global economic outlook remains weak. Uncertainty around the trajectory of the world economy remains high despite waning fear of a global recession and expectation of moderate pick-up in growth of many regions. Global headwinds persist, and the prospects of a stronger recovery next year have dimmed, due to mounting concerns about the vitality of China's economy following its post-COVID reopening at the end of 2022. The IMF notes that global growth is currently heavily reliant on expansions in the majority of emerging and developing economies, whereas there is a continuing slowdown across 93 percent in advanced economies.

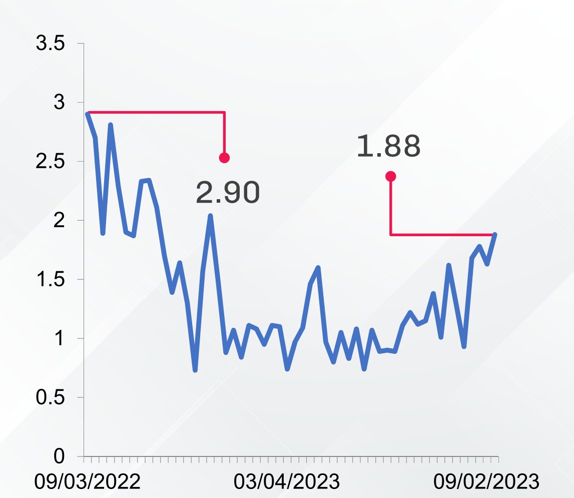
Asia and the Pacific continuing their solid economic recovery. Growth is holding up, supported by strong domestic demand, rebounding tourism, and stable financial conditions, even as export demand remains weak. Inflation is slowing, on account of lower food and energy prices as well as timely action by central banks across the region. Asian Development Outlook September 2023 forecasts that economies in developing Asia and the Pacific will expand by 4.7%. However, it was observed that recovery is still fragile. The growth is accompanied by climate risks, supply-chain disruptions from the Russia-Ukraine conflict, as well as restrictions on food exports, this could exacerbate food inflation and food insecurity. Continued weakness in China's property sector could slow growth in Asia's largest economy.

According to the Fed Beige Book, US economic growth was modest amid a softening labor market with moderate wage growth and slowing inflation pressures in July, strengthening expectations that the Fed's fastest hiking cycle in decades is coming to an end. The Fed is widely expected to leave its benchmark overnight interest rate in the current 5.25-5.50 percent range at the end of its September policy meeting while leaving open the door to a final quarter-percentage-point hike before end of the year 2023. In August 2023, CPI increased by 0.6 percent on a MoM basis, bringing inflation to over 3.7 percent on YoY basis compared to 3.2 percent reported for July 2023. The 10.6 percent increase in gasoline prices contributed to inflation number.

US inflation expectations fell in early September to the lowest levels in more than two years as consumers grew more optimistic about the economic outlook. According to JP Morgan, economic outlook for the US economy is better than expected and a recession could be avoided. The US economy has expanded at an estimated rate of 2.0 percent in Q1 and 2.4 percent in Q2 reflecting the momentum of projected growth in the first half of the year 2023.

Consumer spending which drives 65 percent of GDP - has been resilient throughout 2023. However, if consumer spending moderates as expected in the second half, growth could slow down during the second half of 2023. The US economic situation is also reflected through the cyclical trend in WEI which indicates an increasing trend in recent months (Fig-1).

Fig-1: Growth in WEI (%)



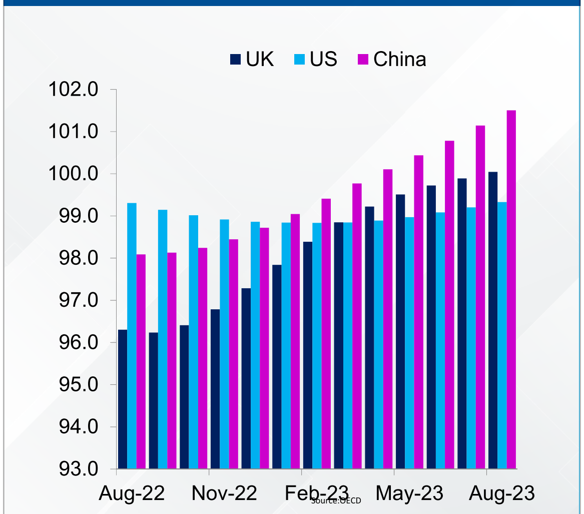
Source: Federal Reserve Bank of New York

The global economic expansion further decelerated into the third quarter. The J.P. Morgan Global PMI Composite Output Index - produced by S&P Global – recorded at 50.6 in August, down from 51.6 in July, 2023. This is the third straight month in which the rate of expansion declined to now sit at the slowest since the global economy returned to growth in February. The current reading is broadly consistent with an annualized quarterly global GDP growth of just under 1 percent, which is below the long-run average of 2.9 percent.

The expansion of output remained exclusive to the service sector as manufacturing output contracted marginally for a third straight month. Deterioration in global trade remained the key driver for the latest developments, although some signs of global destocking signal some relief in the coming months.

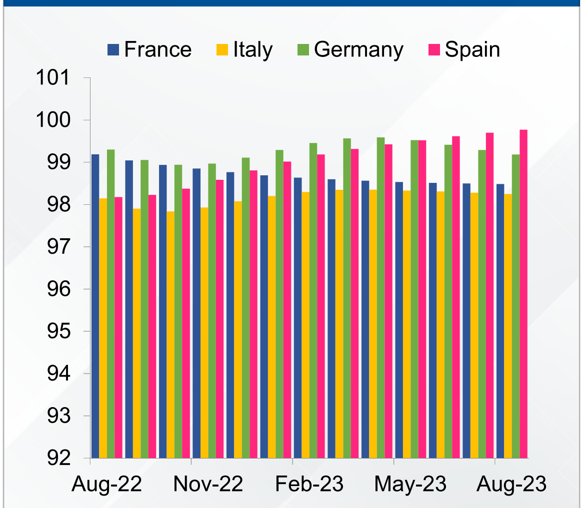
Meanwhile, the service sector remained in expansion, but the rate of growth continued to trend lower to the weakest since January. Weakening service sector growth momentum is partly attributed to softer consumer services conditions as the recent travel surge fades. The global situation is also evident from the monthly CLI position of Pakistan's main trading partners, of which euro area, US, UK and China are moving around their potential level, indicating a surge in Pakistan's export demand (Fig-2).

Fig-2 (a): Composite Leading Indicator



Source: OECD

Fig-2 (b): Composite Leading Indicator



Source: OECD

The FAO food prices index (FFPI) averaged 121.4 points in August 2023, down by 2.1 points from July. The decline in August was driven by a significant decrease in the price indices for vegetable oils by 3.1 percent, sunflower oil by 8.0 percent, cereal price by 0.7 percent, wheat by 3.8 percent, and coarse grain price by 3.4 percent.

Global commodity prices soared in August 2023. Energy prices increased by 7.8 percent, led by 17.3 percent increase in natural gas in Europe and 8.5 percent in coal in Australia. Non-energy prices declined by 1.2 percent. Food prices decreased by 2.2 percent. Beverage gained by 1.4 percent while raw materials eased by 0.7 percent. Fertilizer prices soared 8.2 percent. Metal price declined by 1.9 percent led by 9.3 percent decline in tin. Precious metal dropped by 1.9 percent led by a 3.4 percent drop in sliver.

Performance of Pakistan's Economy

2.1 Real Sector

2.1-a Agriculture

According to the Pakistan Cotton Ginners' Association (PCGA), arrivals of Cotton as of 15th September 2023 posted a remarkable growth of 79.9 percent to 3.93 million bales compared to 2.19 million bales during the same period last year. This surge reflects a growing focus on enhancing cotton production. If the cotton crop production continues to thrive, it will augur well for the economic outlook.

For Jul-Aug FY2024, farm tractor production inched up by 6.5 percent to 6,189 and its sales also increased by 27.3 percent to 6,645 compared to the corresponding period last year. During July FY2024, the agriculture credit disbursement was recorded at Rs 151 billion as compared to Rs 112 billion last year showing an increase of 35.1 percent. During Jul-Aug 2023, urea and DAP offtake for Kharif 2023 was 2,757 thousand tonnes (4.9 percent more than Kharif 2022) and 650 thousand tonnes (51.9 percent higher than Kharif 2022), respectively.

2.1-b Manufacturing

The headwinds of FY2023 continued to prevail in the ongoing fiscal year as Large-Scale Manufacturing (LSM) could not outperform in July 2023 and remained in negative territory. On YoY basis, LSM declined by 1.09 percent in July 2023, while on MoM basis, it decreased by 3.62

Fig-3: LSM Growth Rates (%)

Source: PBS

percent. During the period, 9 sectors witnessed positive growth including, Food, Tobacco, Wearing apparel, Chemicals, Pharmaceuticals, Rubber Products, Non-Metallic Mineral Products, Machinery and Equipment, and others (Football).

The auto industry remained under pressure due to ongoing inflationary pressures and tight auto financing. The downturn was evident across all categories except tractors. Car production and sales decreased by 59.5 percent and 50.4 percent, Jul-Aug FY2024 while Trucks & Buses production and sale decreased by 63.2 percent and 41.1 percent.

The sale of petroleum products declined by 7 percent during Jul-Aug FY2024 to 2.8 mn tons against 3.0 mn tons in the same period last year. While in August 2023, a decline of 8 percent is observed in oil sales reaching 1.40 mn tons from 1.52 mn tons.

On a positive note, total cement dispatches significantly grew by 45 percent during Jul-Aug FY2024 and reached to 7.7 mn tons against the period of last year. In August 2023, cement dispatches surged by 37 percent and stood at 4.518 mn tons against 3.297 mn tons same period last year. Local cement sales by the industry came in at 3.793 mn tons in August 2023, a substantial growth of 30.4 percent from the last year. Whereas exports witnessed a healthy increase of 87.1 percent from 387,440 tons to 724,777 tons during the same period.

2.2 Inflation

CPI inflation increased to 27.4 percent on YoY basis in August 2023 as compared to 27.3 percent in August 2022. On a Month-on-month (MoM) basis, it increased to 1.7 percent in August 2023 compared to an increase of 3.5 percent in the previous month.

Major drivers contributing to the year-on-year increase in CPI include nonperishable food items (42.8 percent), Perishable food items (12.7 percent), Alcoholic Beverages & Tobacco (97.5 percent), Clothing & Footwear (18.5 percent), Housing, Water, Electricity, gas & Fuel (6.3 percent), Health (22.6 percent), Transport (23.0 percent) and Recreation and Culture (61.4 percent).

The SPI for the week ended on 21st September 2023, recorded an increase of 0.93 percent as compared to the previous week. Prices of 11 items declined, 18 items remained stable and 22 items increased.

2.3 Fiscal

The net federal revenues grew significantly by 66.4 percent in July FY2024 to Rs 380.9 billion against Rs 228.9 billion last year. The primary factor in the revenue performance was a substantial rise in non-tax collection, which soared to Rs 139.4 billion in July FY2024 from Rs 40.8 billion last year. Amongst all, higher receipts from petroleum levy, royalties on oil/gas, and the United Nations played a vital role in improving the non-tax collection. On the other hand, FBR tax collection grew by 23.0 percent to Rs 538.4 billion in July FY2024 against Rs 437.4 billion last year.

FBR net provisional tax collection during July-Aug FY2024 grew by 27.2 percent to Rs 1207.5 against Rs 949.1 billion last year. In the month of August 2023, FBR collected 36.4 percent more taxes to reach Rs,669.1 billion from Rs 490.7 billion last year. FBR tax collection has surpassed both its monthly and Jul-Aug FY2024 targets by Rs 20.0 billion and Rs 24.4 billion, respectively. During Jul-Aug FY2024, direct tax revenues increased by 42.2 percent, sales tax by 16.6 percent, FED by 58.0 percent, and customs duty by 11.3 percent. Overall, the growth of domestic tax was recorded at 30.2 percent, indicating the revival of economic activities and sales.

Fig-4: Fiscal Indicators % of GDP (Jul)

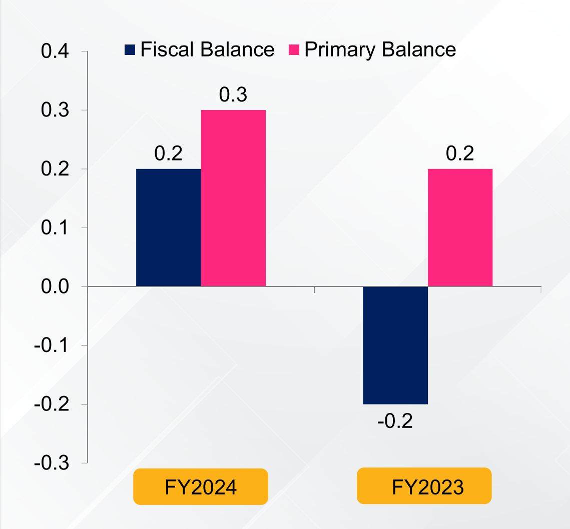
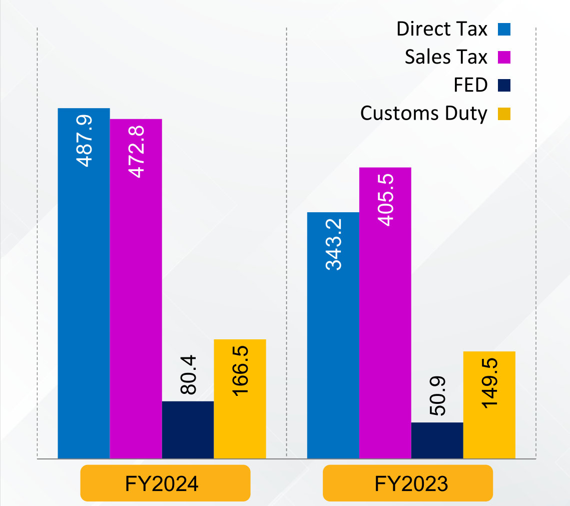


Fig-5: FBR Tax Collection (Rs. bn) (Jul FY24)



Source: FBR

As compared to revenues, total expenditures grew by 20 percent to Rs 644.9 billion in July FY2024 against Rs 536.2 billion last year. Within total, current spending increased by 18.0 percent on account of a 52.0 percent rise in markup payments, while non-markup current spending reduced by 48.3 percent. Consequently, in July FY2024, the primary balance showed a surplus of Rs 311.2 billion (0.3 percent of GDP) against the surplus of Rs 142.2 billion (0.2 percent of GDP) last year. Overall fiscal deficit remained at 0.2 percent of GDP in July FY2024 almost the same as last year.

Box: Economic Revival - Key Measures

- Revenue enhancement strategies including tax revisions in sectors like retail, agriculture, and real estate, alongside a wealth tax on movable assets, as deemed appropriate.
- Tax exemptions to limit to essential sectors only like food and medicine, and supply chains to digitize
- Austerity measures to rationalize government expenditures, along with a review of subsidies and grants.
- Review of the Development Plan and emphasis toward Public Private Partnership (PPP) projects.
- Compliance with Quarterly budget targets and IMF agreements, including tax collection and debt liabilities
- The 5Es framework (Exports, Equity, Empowerment, Environment, and Energy) to address socio-economic challenges, and to encourage export expansion and business facilitation.
- The use of Information Technology to digitize the economy and expand the tax net.
- State-Owned Enterprises (SOEs) reforms to be enacted, including an SOE policy, Central Monitoring Unit (CMU), and SOE performance reports.
- Focus on the implementation of a Treasury single account (TSA), remittance incentives, energy conservation, and price controls.
- The Privatization Commission to privatize selected Public Sector Enterprises using various modes. Initiatives include assessing privatization options for DISCOs, restructuring options for PIA-CL, and unbundling studies for SNGPL and SSGPL.
- Capital market development with a focus on reducing corporate taxes, improving non-bank finance, and promoting the capital market.
- For Export enhancement, implementation of Weighted Average Cost of Gas (WACOG), operationalization of EXIM bank, and faster clearance of sales tax refund are priority short-term measures.
- The short-term initiatives for Business facilitation and promoting investment, to be taken by the Board of Investment, including the Asaan Karobar plan (establishing central e-registry, development of Pakistan Business Portal, National Regulatory Delivery Office).
- IT exports to be boosted through trainings, a Startup Pakistan Program, and policy interventions. In telecommunications, reforms aim to foster growth and introduce 5G technology.
- In Maritime affairs, initiatives include reducing freight charges, enhancing ship recycling, developing port master plans, and revitalizing the fisheries sector.
- Pakistan Railways to focus on governance, private sector participation, technology, and digitalization.
- The National Highways Authority (NHA) to restructure resources, focus on maintenance and optimization, and seek private-sector financing.
- The Petroleum Division to implement price reforms and attract foreign investment, along with other initiatives.
- In the Power sector, short-term actions include an anti-theft campaign, cost reduction through solar initiatives, and renegotiating IPP agreements.

2.4 Monetary

Monetary Policy Committee (MPC) has maintained the policy rate at 22 percent, a decision held on 14th September 2023. This decision considers the latest inflation outturn reflecting the continuing declining trend in inflation from its peak of 38 percent in May to 27.4 percent in August 2023. Even though global oil prices have risen recently and are being passed on to consumers through adjustments in energy prices, inflation is projected to remain on a downward trajectory, especially from the second half of FY2024. During 1st July –1st September, FY2024 money supply showed negative growth of 1.8 percent (Rs -563.0 billion) compared to negative growth of 1.3 percent (Rs -350.4 billion) last year. Within M2, NFA increased by Rs174.0 billion as compared to a decrease of Rs 432.6 billion last year. Whereas the NDA of the banking sector decreased by Rs 737.1 billion as compared to an increase of Rs 82.2 billion last year.

2.5 External Sector

The Current Account posted a deficit of $ 935 million for Jul-Aug FY2024 as against a deficit of $ 2.0 billion last year, largely reflecting an improvement in the trade balance. Exports (fob) declined by 8.3 percent and reached $ 4.5 billion ($ 4.9 billion last year). Imports (fob) declined by 26.0 percent and reached $ 8.5 billion ($ 11.5 billion last year). Resultantly the trade deficit reached $ 3.9 billion as against $ 6.5 billion last year.

During the period under review, exports in Services increased by 2.1 percent to $ 1135 million as against $ 1112 million same period last year. The imports in services increased by 24.7 percent to $ 1598 million as compared to $ 1281 million same period last year. The trade deficit in services stood at $ 463 million as against $169 million last year.

As per PBS, the export commodities that registered positive growth include Fish & Fish Preparation (29.0 percent in quantity & and 3.3 percent in value), Fruits (40.3 percent in quantity & 0.9 percent in value), Cotton Yarn (44.6 percent in quantity & 25.8 percent in value), Towel (17.8 percent in quantity & 6.5 percent in value) and Plastic Materials (152.4 percent in quantity & 31.9 percent in value). Whereas, main imported commodities were Petroleum products ($ 971.4 million), Petroleum crude ($ 456.2 million), Liquefied Natural gas ($ 645.4 million), Palm Oil ($ 552.4million), Plastic materials ($ 431.6 million), Iron & Steel ($ 309.6 million) and Medicinal products ($ 177.1 million).

2.5.1 Foreign Investment

Total foreign investment during Jul-Aug FY2024 recorded an inflow of $ 260.4 million as against $ 176.4 million last year. FDI reached $ 233.8 million during Jul-Aug FY2024 ($ 201.4 million last year) increasing by 16.1 percent. FDI received from China $ 50.4 million (21.6 percent), Netherlands $ 42.6 million (18.2 percent) Switzerland $ 36.5 million (15.6 percent of total FDI), and Hong Kong $ 33.0 million (14.1 percent). Power sector attracted the highest FDI of $ 97.6 million (41.8 percent of total FDI), Oil & Gas exploration $ 29.2 million (12.5 percent), and Pharmaceuticals & OTC products $ 25.4 million (10.9 percent).

Foreign Private Portfolio Investment has registered a net inflow of $ 22.7 million during the same period. Foreign Public Portfolio Investment recorded a net inflow of $ 3.9 million. The total foreign portfolio investment recorded an inflow of $ 26.6 million as against an outflow of $ 25.0 million last year.

2.5.2 Worker’s Remittances

In Jul-Aug FY2024, workers’ remittances decreased by 21.6 percent to $ 4.1 billion ($ 5.3 billion last year). MoM, remittances increased by 3.1 percent in August 2023 ($ 2.1 billion) as compared to July 2023 ($ 2.0 billion). Major sources of remittances are Saudi Arabia 23.7 percent ($ 976.9 million), U.A.E 15.1 percent ($ 623.5 million), U.K 15.5 percent ($ 637.9 million), USA 12.2 percent ($ 503.7 million), other GCC countries 11.5 percent ($ 472.8 million), EU 13.9 percent ($ 573.8 million), Canada 1.7

percent ($ 71.5 million), and other countries 6.5 percent ($ 261.9 million). The decline is attributed to the global economic slowdown as higher inflation in developed countries has led to higher cost of living abroad, thus reducing the surplus funds that could be sent back to homeland as remittances, and the wedge between the exchange rate in interbank and open market.

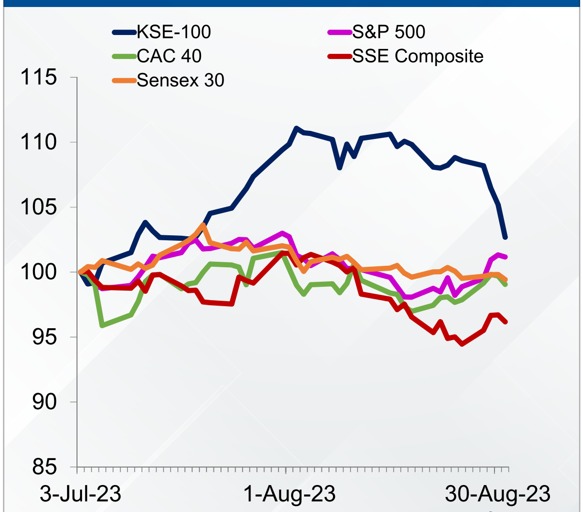
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $ 13.2 billion on September 26, 2023, as the SBP's reserves stood at $ 7.7 billion and Commercial banks' reserves remained at $ 5.5 billion.

2.6 Performance of KSE Index

The performance of Pakistan Stock Exchange (PSX) remained volatile during the month of August 2023, ranges between 45,081 – 48,765 points. However, the index remained significantly higher than its 6-month average i.e., 43,245. The market capitalization of PSX settled at Rs 6,716 billion as of 31st August 2023. During Jul-Aug 2023, the KSE-100 index increased by 2.7 percent, while the S&P 500 of the US increased by 1.2 percent. Contrary, the SSE Composite of China declined by 3.8 percent, the CAC 40 of France declined by 0.9 percent and the Sensex 30 of India declined by 0.6 percent. The performance of major world indices indexed at 100 is depicted in Figure:

Fig-6: Trend of Major World Standardized Indices



Source: PSX, Investing.com

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

2.7 Social Sector

- PPAF through its Partner Organizations has disbursed 32,176 interest-free loans amounting to Rs 1414 million during August 2023. Since the inception of the interest-free loan component, a total of 2,466,309 interest-free loans amounting to Rs 93,323 million have been disbursed.
- Under the Prime Minister Youth Business & Agriculture Loan Scheme, the government has disbursed Rs 30,000 million till June 2023 to 61,687 beneficiaries for business.
- Pakistan is one of the largest labour exporting countries in the region. During August 2023 Bureau of Emigration & Overseas Employment registered 90014 workers for overseas employment in different countries.
- An alarming increase in dengue cases was witnessed nationwide reaching 6,274. Balochistan reported the highest number of cases (2,627), followed by Punjab (1,961), Sindh (1,014), ICT (438), and KP (234). The federal government in coordination with the provincial governments is framing a coordinated strategy for the prevention of the dengue virus to protect the people from disease

Economic Outlook

3.1 Inflation

International food prices have been experiencing a decline during August 2023. The Food and Agriculture Organization (FAO)'s price index, which tracks the most globally traded food commodities, averaged 121.4 points in August 2023 against 124.0 for the previous month. The August figure was the lowest since March 2021 and also 24 percent below than an all-time high in March 2022, in the wake of Russia's invasion of Ukraine. The decline in most of the food commodities is offsetting the increases in rice and sugar.

Domestically, the government's stern administrative action against the unlawful foreign exchange dealers and hoarders in commodity markets is stabilizing the exchange rate, providing a respite to the imported inflation and easing out commodity prices. The SBP has also maintained the policy rate to the previous level in view of anchored inflationary expectations. The impact of the double-digit base effect is a relief to the September inflation; however, its impact seems to be minimized owing to the major increase in fuel price in the month of September 2023. Together with this, the upward adjustment in energy tariffs is further likely to intensify inflationary pressures in the coming months as these price adjustments are expected to place additional burden on transportation costs, essential items, and services. In view of the above, inflation is anticipated to remain high in the coming month. In September 2023, it is expected to be around 29 to 31 percent.

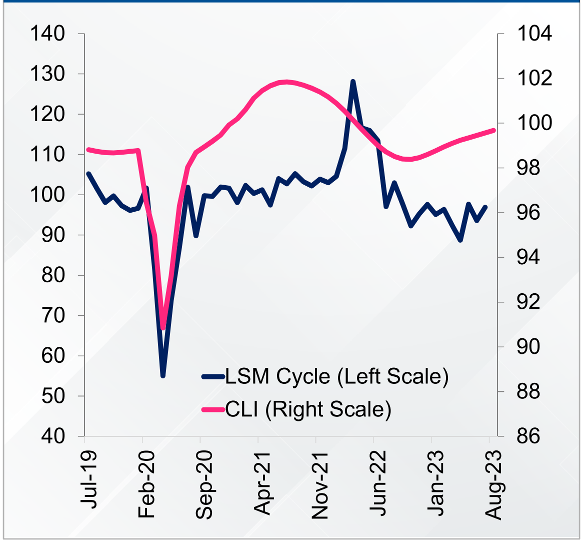
3.2 Agriculture

The agricultural outlook for Kharif 2023 seems promising as the input demand shows an uptick due to lucrative incentives by the government, however, there may be downside risks due to climate shocks. The recent pest attack on cotton crops may pose substantial risks to the cotton yield.

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 continued to remain below the potential level since April 2022. The cyclical LSM pattern in the month of July showed some improvement though still below the potential level. For the month of August, the pressure is expected to ease out further on the back of significant rebounds in cement dispatches and the removal of import restrictions.

Fig-7: Relationship between CLI and LSM cycle

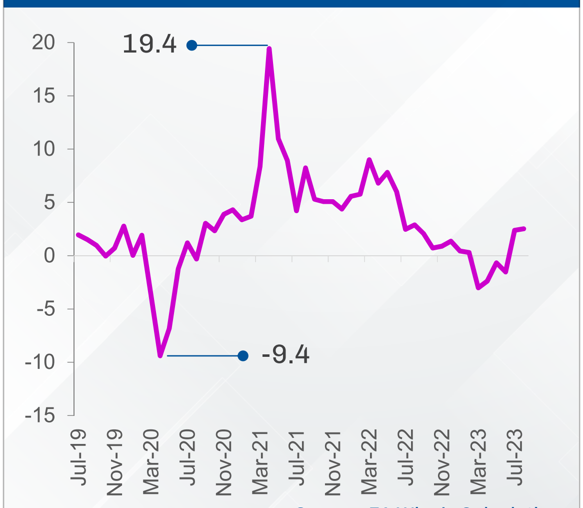


Source: PBS, OECD and EAW Calculations

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 August, 2023 MEI are still provisional and may be revised next month.

Fig-8: Monthly Economic Indicator (MEI)



Source: EA Wing's Calculation

The MEI estimated for the month of August 2023 stood positive on the back of improved exports and imports on MoM basis and rising cement dispatches. As the government is striving hard to revive the economy, MEI is expected to be positive throughout the outgoing fiscal year.

3.5 External

August-FY2024 BoP data shows some developments - as exports of goods and services increased by 13.8 percent on MoM basis, and imports of goods and services increased marginally by 1.4 percent. As a result, strong growth in exports has been transmitted in the trade deficit of goods and services which decreased by 12.6 percent on MoM basis in the month of August. Similarly, worker's remittances increased by 3.2 percent in August 2023. All these positive factors impacted the current account and its deficit decreased by around 79 percent on both MoM and YoY basis.

For the outlook, recent administrative measures against speculative activity in the foreign exchange market in the month of September will impact positively remittances inflows, trade, and current account balance. Moreover, Pakistan's main export markets particularly US, UK, Euro Area and China's monthly CLI positions indicate an upward trend, indicating positive prospects for export growth in the coming months. However, imports will gradually increase to stimulate economic activities in the economy. Therefore, it is expected that the current account will remain with a sustainable limit.

3.6 Fiscal

In July FY2024, fiscal performance remained satisfactory while exhibiting a surplus in the primary balance accompanied by a fiscal deficit at the same level as last year. On the revenue side, new tax measures are contributing to direct tax collection. Other components of tax collection like FED have also posted significant growth mainly due to an uptick in collections at the import stage. With the removal of import restrictions, the collection from import-related taxes is likely to increase further. Similarly, the increase in sales tax is primarily attributed to 25.6 percent from domestic collection. Overall performance signifies the revival of economic activities and sales. These developments collectively bode well for achieving the tax collection target in the first quarter of FY2024.

The government is actively engaged in implementing a strategy to ensure fiscal sustainability through revenue-enhancing initiatives and prudent expenditure management. The government is particularly focusing on restricting non-markup expenses through the implementation of austerity measures and targeted subsidies. The main objectives are to limit the fiscal deficit to 6.5 percent of GDP and to keep the primary balance in surplus of 0.4 percent of GDP during FY2024.

3.7 Final Remarks

Recent administrative measures aimed at improving the availability of essential food commodities and expected ease in supply constraints have improved the inflation outlook. Moreover, administrative and regulative action for curbing illegal activities in the foreign exchange market have started to yield desired dividends and narrowing the gap between interbank and open market exchange rates. On the external front, current account deficit and aligned indicators are showing some developments in August. Similarly, fiscal performance remains satisfactory at the start of FY2024. It is expected that the economic revival plan and prudent actions - policies including SIFC and IT policy- will attract new investments to create a multiplier effect in the economy for higher and inclusive economic growth in FY2024 and further in the medium term.

ECONOMIC INDICATORS

External Sector		2022-23 Jul-Aug	2023-24 Jul-Aug	% Change
Remittances ($ Billion)		5.3	4.1	▼ 21.6%
Exports FOB ($ billion)		5.0	4.5	▼ 8.3%
Imports FOB ($ billion)		11.5	8.5	▼ 26.0%
Current Account Deficit ($ billion)		2.0	0.9	▼ 54.1%
FDI ($ million)		201.4	233.8	▲ 16.1%
Portfolion Investment ($ million)		-24.9	26.6	▲
Total Foreign Investment ($ million)		176.4	260.4	▲ 47.6%
Forex Reserves ($ Billion)	Total	13.7	13.2	-
	SBP	7.9	7.7	-
	Banks	5.8	5.5	-
		26-Sep-22	26-Sep-23	
Exchange Rate (PKR/US$)		233.90	288.80	-
		27-Sep-22	27-Sep-23	

Source: SBP

Fiscal Sector (Rs. Billion)	2022-23 (Jul)	2023-24 (Jul)	% Change
FBR Revenue (Jul-Aug)	949	1207	▲ 27.2%
Non-Tax Revenue (Federal)	40.8	139.4	▲ 241.7%
PSDP (Excluding grants to Provinces)	5.2	16.0	▲ 207.7%
Fiscal Deficit	210.0	225.3	▲ 7.3%
Primary Deficit	142.2	311.2	▲ 118.8%

Source: FBR & Budget Wing

Monetary Sector	2022-23	2023-24	% Change
Agriculture Credit (Prov.) (FY22 vs FY23)	1,418.9	1,776.0	▲ 25.2%
Credit to Private Sector (Flows)	-116.0	-222.8	▼
	1-Jul to 02-Sep	1-Jul to 01-Sep	
Growth in M2 (percent)	-1.3	-1.8	-
	1-Jul to 02-Sep	1-Jul to 01-Sep	
Policy Rate (percent)	15.00	22.00	-
	22-Aug-22	14-Sep-23	

Source: SBP

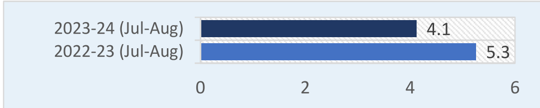
Inflation	2022-23	2023-24	% Change
CPI (National) %	27.3	27.8	-
	(Aug)	(Aug)	
	26.1	27.8	-
	(Jul-Aug)	(Jul-Aug)	

Real Sector	2021-22	2022-23	% Change
Large Scale Manufacturing (LSM) %	11.6	-15.0	-
	(Jun)	(Jun)	
	11.7	-10.3	-
	(Jul-Jun)	(Jul-Jun)	
PSX Index *	43899	46365	▲ 5.6%
	03-Jul-23	27-Sep-23	
Market Capitalization (Rs trillion)	6.69	6.93	▲ 3.6%
	03-Jul-23	27-Sep-23	
Market Capitalization ($ billion)	23.39	23.98	▲ 2.5%
	03-Jul-23	27-Sep-23	
Incorporation of Companies (Jul FY23 vs Jul FY24)	4,139	5,055	▲ 22.1%

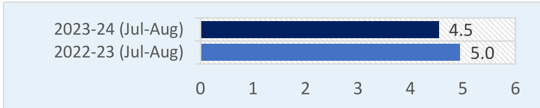
* : Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP

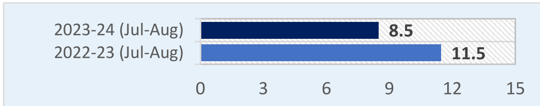
Remittances ($ bn) ▼ 21.6%



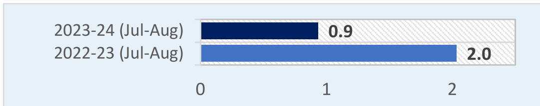
Exports FOB ($ bn) ▼ 8.3%



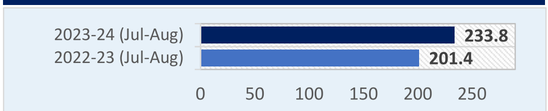
Imports FOB ($ bn) ▼ 26.0%



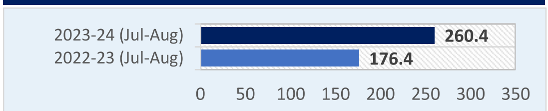
Current Account Deficit ($ bn) ▼ 54.1%



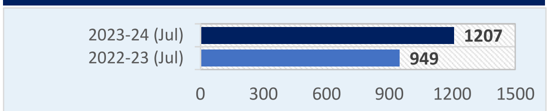
FDI ($ mn) ▲ 16.1%



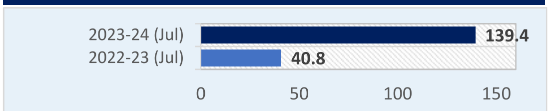
Total Foreign Investment ($ mn) ▲ 47.6%



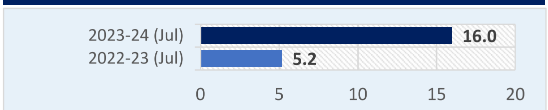
FBR Revenue (Rs.bn) ▲ 27.2%



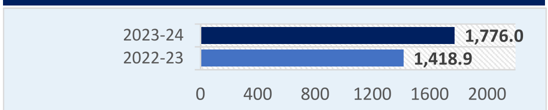
Non-Tax Revenue (Rs.bn) ▲ 241.7%



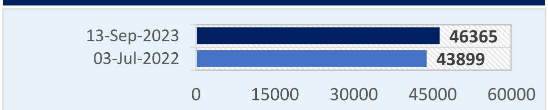
PSDP (Rs.bn) ▲ 207.7%



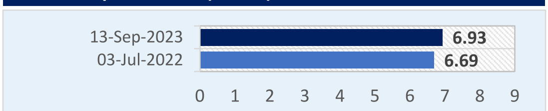
Agriculture Credit (Provisional) ▲ 25.2%



PSX Index ▲ 5.6%



Market Capitalization (Rs. bn) ▲ 3.6%



Market Capitalization ($ bn) ▲ 2.5%