MONTHLY

ECONOMIC UPDATE & OUTLOOK

FEBRUARY 2024

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

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Contents

Foreword

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As the new government takes office after the 8th February General Elections, expectations are that a vibrant strategy and vision would help revive the economy and build on the hard-earned gains made over the last six months. Last few months measures have restored market confidence and led to a pick-up in economic activity. GDP growth accelerated to 2.1% in Q1 FY2024, after two consecutive quarters of negative growth. The growth was broad-based with the agriculture sector posting 5% growth and manufacturing activity registering 2.5% growth. In particular, the removal of the import ban and other import restrictions have eased supply constraints, leading to pick-up in economic activity. Data from Q2 FY2024 is showing stronger performance of the manufacturing sector, with large scale manufacturing posting 8.2% increase over Q1. We expect Q2 FY2024 GDP growth to rise to around 3% on stronger manufacturing output and higher production of crops including cotton, which has increased by 75% to 8.35 million bales.

To tackle these challenges, the caretaker government has taken steps to reduce unproductive expenditures and boost tax and non-tax income. During Jul-Dec FY2024, the government has run a primary surplus of Rs 1.5 trillion (1.4% of GDP) against IMF SBA target of 0.5% of GDP. Difficult and unpopular measures including a reduction in the subsidy bill on power and gas through timely implementation of quarterly tariffs helped improve primary account. No supplementary grants have been issued during this period and PSDP projects that fall under the provincial domain have been transferred to provincial ADPs. At the same time, we have increased the release of funds for 9.3 million most vulnerable households.

On the revenue side, the FBR Tax collection grew by 30% to Rs 5.15 trillion during Jul-Jan FY2024 despite a slowdown in imports and 0% GST on petroleum products. Overall growth in the domestic taxes has increased by 40%, with the rebound in economic activity and rise in profitability of companies including Banks, Oil & Gas, and the manufacturing industry. Import taxes posted a growth of 16% due to improvements in the valuation of imports that yielded Rs 151 billion in collections as well as the anti-smuggling drive that witnessed almost 69 % growth in FY2024.

The improvement in the fiscal position has helped the government to reduce the accumulation of public debt. Net domestic borrowing has decreased by 67% to Rs 1.9 trillion, from Rs 5.8 trillion in the preceding period. The lower domestic borrowing, lower cost of borrowing on margin (below the SBP policy rate) and extended maturity profile helped lower net domestic borrowing. Most of all the domestic debt profile has improved to 3.1 years in Jan 2024, from 2.7 months in Jun 2023. The government also successfully launched a 1 year Sukuk on the PSX, the first auction was held in November 2023, raising lower-cost debt from non-bank and retail investors. Similarly, external net borrowing during fell to $ 0.3 billion, compared to $ 3bn in the preceding period.

At the heart of the economic challenges facing Pakistan today is the unsustainable public debt position, with Pakistan in breach of the Fiscal Responsibility & Debt Limitation Act (FRDL) since 2013. The government's ability to service the public debt liabilities are hampered by weak tax collection, rising losses of SOEs, and highest interest rates since 1972.

The improvement in the fiscal position and other quantitative and structural benchmarks led to the successful first review of the IMF SBA in November 2023, and subsequent disbursement of $ 700 million in January 2024. The measures taken to conclude the IMF staff review included the annual rebasing of power tariffs, the semi-annual gas tariff adjustment, and the SOE Policy to enhance governance and improve financial performance. A comprehensive Circular Debt Management Plan (CDMP) was enforced that focused on reforms to reduce high costs, improve DISCO performance, and increase competition and green energy.

Headline Inflation has remained persistently high, but we anticipate a significant fall in inflation in 2024 due to the economic measures taken by the caretaker government including improvement in the supply of imports of raw materials, higher food production, and stability in the exchange rate market. Assuming no exogenous shocks, including a rise in international oil prices, the SBP projects inflation to fall to 5% to 7% range by FY2025. During the month of Feb 2024 the weekly SPI inflation has declined to 30.7% compared to 44% in Jan 2024.

Turning to the markets, the premium between interbank and open market was brought down to less than 0.5%, against the agreed 1.25% range. SBP FX reserves were raised to $ 8.1 billion, compared to $ 4.4bn in June 2023, while reducing the swaps from commercial banks to $ 3.5 billion, from $ 4.5 bn in June 2023.

The markets have rallied due to improvements in the economic conditions and the PSX has rallied 40% from Sep with the KSE 100 index rising to 63,300 points by 26th Feb. Foreign buyers have invested $ 51.7 million in the PSX during FY2024, after 4 years of outflow. During the period, the Rupee has strengthened 8% to 280 levels. The risk premium (Credit Default Swaps) on the Eurobonds has come down sharply to 1,534bps in Feb 2024, compared to 4,825bps in June 2023.

To sustain these gains, it is imperative that the new government completes the last review of the IMF SBA. Perhaps more important is that the new government reach an early agreement with the IMF staff on a new medium-term facility, providing an anchor to carry out the difficult reforms. To achieve this the new government must take forward critical reforms on restructuring of the FBR, privatization of the loss-making SOEs including PIA, and the implementation of the SOE policy for improved governance and financial performance.

Executive Summary

Economic instability is fading, with revival efforts aimed at boosting the activity across sectors. The real sector is experiencing notable growth, leading to a positive market response and signs of recovery. The PKR has stabilized and the PSX has shown sustained performance improvements, reflecting a conducive environment for the economic activity. Though the pace of overall expansion is slow, but improvements in major economic indicators signifying an optimistic GDP outlook in FY2024.

Agriculture sector is experiencing stronger growth as compared to last year. The robust performance in this sector reflects better situation of food security and employment during the ongoing fiscal year. For the Rabi season 2023-24, the timely sowing of wheat aligns with the goal of reaching a production target of 32.12 million tonnes, with expectations for further increase in other crops production due to favorable climatic conditions. The farm tractor production and sales registered significant increase of 76.7 percent and 82.5 percent during July-January FY2024, respectively, compared to the same period last year. A mixed trend witnessed in fertilizer usage, urea off-take dropped by 6.7 percent during October-January whereas DAP off-take rose by 14.5

percent during the same period.

The LSM sector showcased an increase of 3.4 percent on YoY basis in December 2023, compared to 1.1 percent decline. On MoM basis it increased by 15.7 percent in December, against an increase of 3.6 percent in November. Overall, a minor decline of 0.4 percent was recorded during Jul-Dec FY2024, compared to a contraction of 2.1 percent in the same period last year. During Jul-Dec FY2024, 12 out of 22 sectors witnessed positive growth. The positive sectors include Food, Beverages, Wearing Apparel, Leather Products, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Rubber Products, Wood Products, Machinery and Equipment and others (including Football), while negative growth observed in Tobacco, Textile, Paper & Board, Iron & Steel Products, Fabricated Metal, Computer, Electronics & Optical Products, Automobiles, Electrical Equipment, Furniture and Other Transport Equipment.

The inflationary pressure remained sustained in January, though anticipated to fall in coming months. In January 2024, the CPI inflation was recorded at 28.3 percent on a year-on-year basis, up from 27.6 percent in January 2023. During Jul-Jan FY2024, it has increased to 28.7 percent, compared to 25.4 percent in the corresponding period last year. The spike in CPI is mainly driven by an increase in the costs of Alcoholic Beverages & Tobacco, Housing, Water, Electricity, Gas & Fuel, Furnishing & Household Equipment Maintenance, Perishable Food Items, Non-Perishable Food Items, Transport, Health, and Clothing & Footwear. The government is providing relief measures including the Ramzan Relief package, aimed at supporting poor segment of the society during the holy month of Ramzan in 2024.

On the fiscal front, during first half of the current fiscal year, a substantial rise in tax and non-tax collection contributed to improved revenue growth, leading to a surplus in the primary balance. However, the expenditure side remained under significant pressure due to higher markup payments. Consequently, the fiscal deficit reached 2.3 percent of GDP compared to 2.0 percent of GDP last year. While the primary surplus improved to 1.7 percent of GDP during Jul-Dec FY2024, up from the 1.1 percent of GDP in the previous year.

On the external front, a sustained improvement in trade balance is continued, leading to improvement in the Current Account Balance. During Jul-Jan FY2024, the Current Account posted a deficit of $1.1 billion against a deficit of $ 3.8 billion last year. The YoY exports increased by 21.2 percent to $ 2.7 billion in January 2024 as compared to $ 2.2 billion in January 2023, owing to ease in imports restriction and exchange rate stability resulted in smooth supply of raw material for export-oriented industries. YoY imports increased by 16.0 percent to $4.5 billion in January 2024 as compared to $ 3.9 billion same month last year. Trade balance narrowed down by 9.1 percent to $ 1.8 billion in January 2024 as against $ 1.7 billion last year. The total foreign investment during Jul-Jan FY2024 recorded an inflow of $ 785.9 million as against an outflow of $ 148.8 million last year. During Jul-Jan FY2024, workers' remittances recorded at $ 15.8 billion ($ 16.3 billion last year), decreased by 3.0 percent. However, YoY remittances increased by 26.2 percent in January 2024 ($ 2.39 billion) as compared to January 2023 ($ 1.90 billion)

In monetary sector, the MPC has maintained the policy rate at 22.0 percent in its decision held on 29th January, 2024. The decision based on the expectation of decline in inflation in upcoming months. During 1st July – 2nd February, FY2024 money supply (M2) showed growth of 2.5 percent (Rs 792.3 billion) compared 1.5 percent growth (Rs 426.1 billion) in last year.

The first seven months indicates uptick in the key economic indicators. It is expected that the economic activities will gain further momentum in the last quarter of FY2024. The positive outlook is contingent on the sustained implementation of sound and prudent economic policies to achieve the set growth targets for the current fiscal year.

International Performance and Outlook

According to World Economic Outlook (WEO) January 2024, global growth estimated at 3.1 percent in 2024 before rising modestly to 3.2 percent in 2025. The forecast for 2024 is 0.2 percentage point higher, compared with October 2023 WEO, indicating upgrades for China, the United States, and large emerging market and developing economies. Nevertheless, the projection for global growth in 2024 and 2025 is below the historical (2000–19) annual average of 3.8 percent, reflecting restrictive monetary policies and withdrawal of fiscal support, as well as low underlying productivity growth. Advanced economies are expected to observe growth decline slightly in 2024 before rising in 2025, with a recovery in the euro area from low growth in 2023 and a moderation of growth in the United States. Emerging market and developing economies are expected to experience stable growth through 2024 and 2025.

Global headline inflation is expected to fall from an estimated 6.8 percent in 2023 to 5.8 percent in 2024 and 4.4 percent in 2025. The drivers of declining inflation differ by country but generally reflect lower core inflation as a result of still-tight monetary policies, a related softening in labor markets, and pass-through effects from earlier and ongoing declines in relative energy prices.

World trade growth is projected at 3.3 percent in 2024 and 3.6 percent in 2025, below its historical average growth rate of 4.9 percent. Rising trade distortions and geo-economic fragmentation are expected to continue to weigh on the level of global trade. These forecasts are based on assumptions that fuel and non-fuel commodity prices will decline in 2024 and 2025, and interest rates will also be declining in major economies. Annual average oil prices are projected to fall by about 2.3 percent in 2024, whereas non-fuel commodity prices are expected to fall by 0.9 percent.

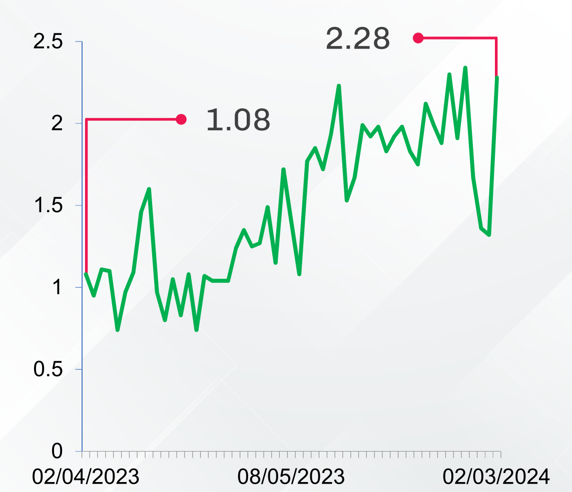
The Federal Reserve held its benchmark overnight interest rate steady in the 5.25-5.50 percent range at the end of its January 30-31 policy meeting. However, committee has considered to reducing it once policymakers are more confident, inflation will continue falling to the U.S. central bank's 2 percent target. Upcoming data on inflation, jobs and consumer spending will shape the timing of that decision. CPI index rose 3.1 percent on YoY basis in January, down from 3.4 percent in the prior month, but the latest inflation numbers was higher than expected projections.

U.S. firms added 353,000 jobs in January up from 333,000 jobs in December. The unemployment rate remained steady at 3.7 percent. The US Commerce Department's Bureau of Economic Analysis (BEA) reported fourth quarter real GDP increased at an annual rate of 3.3 percent in the fourth quarter of 2023 exceeding expectations. In addition, the economy added 2.7 million jobs in 2023.Consumer confidence continues to remain strong. This also evident through growth in WEI which is hovering around 2-2.5 percent in recent months (Fig-1).

The J. P. Morgan Global Composite Output Index increased to 51.8 in January 2024 as against 51.0 in December 2023 and its highest reading since June 2023. Services business activity rose at the quickest pace since July 2023, as increases in the business and financial services categories offset a minor decrease at consumer service providers.

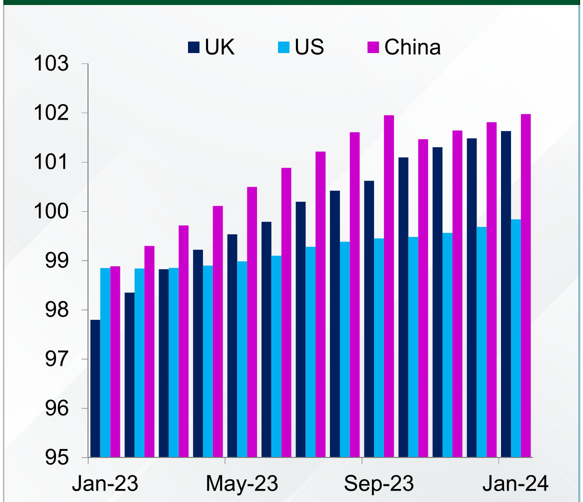
Data by nation signaled expansions of economic output in 09 out of the 14 nations for which January data were available. The BRIC nations of Brazil, Russia, India and China made up four of the top-five performers, along with the UK in fourth position overall. The US, Japan, Italy and Spain were the other nations to signal expansions. France, Canada and Germany were the worst performers overall, while

Fig-1: Growth in WEI (%)



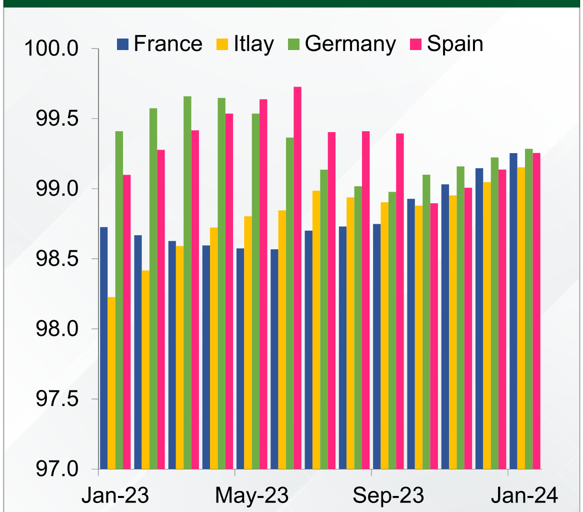
Source: Federal Reserve Bank of New York

Fig-2 (a): Composite Leading Indicator



Source: OECD

Fig-2 (b): Composite Leading Indicator



Source: OECD

Australia and Kazakhstan also observed output decline. This growth expansion is also evident through CLI position of Pakistan's main export markets. The expansion has been observed in UK and China, contrary US and Euro Area economies are below their potential (Fig-2).

The FAO food prices index (FFPI) averaged 118.0 points in January 2024, down 1.2 points from its revised December level, as decline in the price indices for cereals and meat more than offset an increase in the sugar price index, while those for dairy and vegetable oils registered slight adjustments.

Energy prices in January increased by 8.2 percent, led by natural gas US (25.9 percent) and oil (2.6 percent). Non-energy prices eased by 0.7 percent. Food prices declined by 1.6 percent. Beverage and raw materials gained 1.7 percent and 0.9 percent. Fertilizer prices plunged 2.9 percent. Metal price inched down 0.3 percent led by nickel (-2.2 percent) and Iron-Ore (-0.9 percent). Precious metal eased by 0.3 percent.

Performance of Pakistan's Economy

2.1Real Sector

2.1-a Agriculture

For Rabi 2023-24, wheat crop timely sowing is well aligned with the target to achieve the production target of 32.12 million tonnes. The Rabi season crops production is expected to increase given the climatic condition in the country. Weather changes during growing seasons particularly near maturity affects wheat production.

The farm inputs show positive sign. During, Jul-Jan FY2024, farm tractor production and sales recorded at 27,721 and 27,225 witnessing an increase of 76.7 percent and 82.5 percent, respectively, over same period last year. During Jul-Dec FY2024, the agriculture credit disbursement reached to Rs 1105.8 billion as compared to Rs 842.4

billion last year, an increase of 31.3 percent. Urea offtake during Rabi 2023-24 (Oct-Jan) remained 2,310 thousand tonnes (6.7 percent less than Rabi 2022-23) whereas DAP offtake was 642 thousand tonnes (14.5 percent higher than Rabi 2022-23)

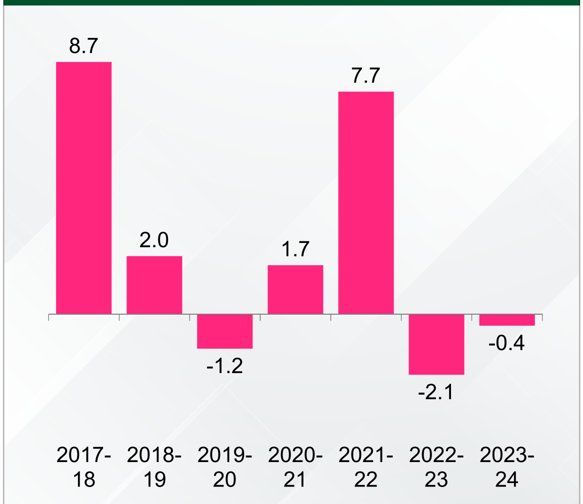
2.1-b Manufacturing

Large Scale Manufacturing (LSM) declined by 0.4 percent during Jul-Dec FY2024 against the contraction of 2.1 percent same period last year. In December 2023, LSM increased by 3.4 percent on YoY basis against the decline 1.1 percent in the same month last year. While on MoM basis, it increased by 15.7 percent in December against the increase of 3.6 percent in November.

During Jul-Dec FY2024, 12 out of 22 sectors witnessed positive growth. The positive includes, Food, Beverages, Wearing apparel, Leather, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Non-Metallic Mineral Products, Rubber Products, Wood Products, Machinery and Equipment, and others (Football).

During Jul-Jan 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 47.6 percent and 48.7 percent, while Trucks & Buses production and sale decreased by 58.3 percent and 49.4 percent. However, Tractor's production and sale increased by 76.7 percent and 82.5 percent.

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



Source: PBS

During the first seven months of FY24, sales of total petroleum products dropped by 13 percent to 9.07 million tons compared to 10.48 million tons in the same period last year. While in January 2024, oil sales recorded at 1.38 mn tons, down 4.0 percent YoY.

During Jul-Jan FY2024, total cement dispatches (domestic and exports) were 27.296 million tons that is 5.9 percent higher than 25.770 million tons dispatched during the corresponding period of last fiscal year. Domestic dispatches during this period were 23.196 million tons against 23.618 million tons during same period last year showing a reduction of 1.79 percent. Export dispatches showed healthy increase of 90.49 percent as the volumes increased to 4.1 million tons during the first seven months of current fiscal year compared to 2.152 million tons exports done during same period last year.

2.2 Inflation

CPI inflation recorded at 28.3 percent on a year-on-year basis in January 2024 as compared to 27.6 percent in January 2023. During Jul-Jan FY2024, CPI stood at 28.7 percent against 25.4 percent in the same period last year. On a Month on Month (MoM) basis, it increased to 1.8 percent in January 2024 compared to an increase of 0.8 percent in the previous month.

Major drivers contributing to the year-on-year increase in CPI include Alcoholic Beverages & Tobacco (82.6 percent), Housing, Water, Electricity, gas & Fuel (38.7 percent), Furnishing & Household equipment maintenance (31.2 percent), Perishable food items (30.7 percent), Non-perishable food items (24.0 percent), Transport (26.2 percent), Health (21.5 percent) and Clothing & Footwear (21.0 percent).

The approval of the Ramzan Relief package by the ECC is aimed at providing support to the poor segment of society during the holy month of Ramzan. With an allocation of Rs 7.492 billion, this package will enable the provision of subsidized items through the

Utility Stores Corporation (USC) to help alleviate the financial burden on the target beneficiaries.

The SPI for the week ended on 22nd February 2024, recorded an increase of 0.04 percent as compared to previous week. Prices of 08 items declined, 20 items remained stable and 23 items increased.

2.3 Fiscal

During first half of FY2024, the Fiscal deficit was recorded at 2.3 percent of GDP (Rs2407.8 billion) against 2.0 percent of GDP (Rs1683.5 billion) last year. Whereas a primary surplus continued to improve and reached Rs 1812.2 billion (1.7 percent of GDP) during Jul-Dec FY2024 from the surplus of Rs 889.6 billion (1.1 percent of GDP last year).

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

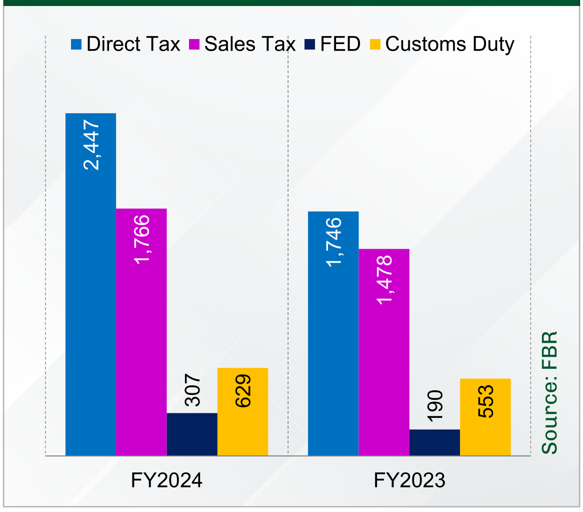
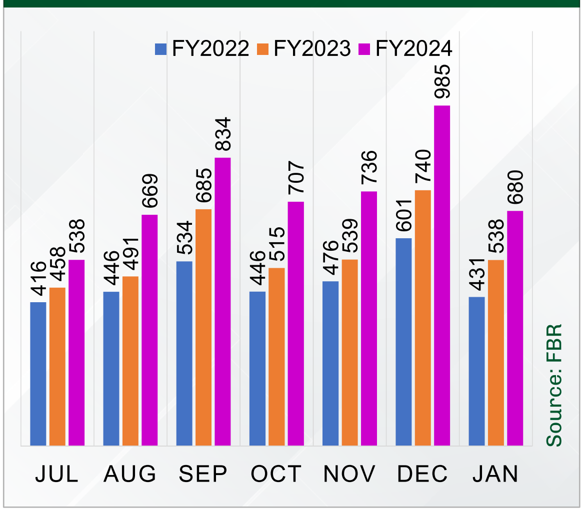


Fig-4 (a) : Month-wise FBR Tax Collection (Rs.Billion)



FBR collected Rs 5149.6 billion in Jul-Jan FY2024 against Rs 3966.4 billion last year, representing a growth of 29.8 percent. In the month of January 2024, the net collection grew by 26.6 percent to reach Rs 680.3 billion from Rs 537.6 billion last year. During Jul-Jan FY2024, domestic tax collection increased by 32.4 percent while customs duty grew by 13.7 percent. Within the domestic tax collection, FED remained the major revenue head with 61.8 percent growth followed by direct tax at 40.2 percent and sales tax at 19.5 percent.

2.4 Monetary Sector

The Monetary Policy Committee (MPC) has maintained the policy rate at 22 percent in its decision held on 29th January, 2024. The MPC has observed that the frequent and sizeable adjustments in administered energy prices have slowed down the pace of decline in inflation anticipated earlier, besides a sustained decrease in inflation expectations. On the other hand, the non-energy inflation continues to moderate, in line with expectations.

During 1st July – 2nd February, FY2024 money supply (M2) shows growth of 2.5 percent (Rs 792.3 billion) compared 1.5 percent growth (Rs 426.1 billion) in last year. Within M2, NFA increased by Rs 360.8 billion as compared decrease of Rs 2303.5 billion in last year. On the other hand, NDA of the banking sector increased by Rs 431.5 billion as compared an increase of Rs 2729.5 billion last year.

2.5 External Sector

The Current Account posted a deficit of $ 1.1 billion for Jul-Jan FY2024 as against a deficit of $ 3.8 billion last year, largely reflecting narrow down in trade deficit. Exports (fob) increased by 9.3 percent and reached $ 18.0 billion ($ 16.4 billion last year). Imports (fob) declined by 11.1 percent reaching $ 29.8 billion ($ 33.5 billion last year). Resultantly, the trade deficit recorded at $ 11.8 billion as against $ 17.0 billion last year.

Exports in services decreased by 2.4 percent to $ 4,448 million as against $ 4,558 million same period last year. The imports in services increased by 28.8 percent to $ 6,168 million as compared to $ 4,790 million same period last year. The trade deficit in services stood at $ 1,720 million as against $ 232 million last year.

As per PBS, the export commodities that registered positive growth include Rice (67.6 percent in quantity & and 95.3 percent in value), Fruits (26.7 percent in quantity & 9.6 percent in value), Cotton Yarn (73.5 percent in quantity & 49.0 percent in value), Towel (13.0 percent in quantity & 2.3 percent in value) Rubber Tyres & Tubes (9.3 percent in quantity & 42.1 percent in value), and Plastic Materials (118.2 percent in quantity & 53.8 percent in value). Whereas, main imported commodities were Petroleum products ($ 3621.4 million), Petroleum crude ($ 2977.7 million), LNG ($ 2298.1 million), Palm Oil ($1611.4 million), Plastic materials ($ 1367.9 million), Iron & Steel ($ 1146.8 million) and Medicinal products ($ 633.7 million).

2.5.1 Foreign Investment

Total foreign investment during Jul-Jan FY2024 recorded an inflow of $ 785.9 million as against an outflow of $ 148.8 million last year. FDI stood at $ 689.5 million ($ 876.8 million last year) decreasing by 21.4 percent. In January 2024, FDI witnessed a huge outflow of $ 173 million owing to aggressively pulled out of investment from power projects mainly by China. FDI received from Hong Kong $ 206.9 million (30.0 percent), UK $ 141.5 million (20.5 percent), Netherland $ 53.7 million (7.8 percent), Singapore $ 49.0 million (7.1 percent share), and China $ 37.9 million (5.5 percent). Power sector attracted the highest FDI of $ 191.0 million (27.7 percent of total FDI), Oil & Gas exploration $ 134.6 million (19.5 percent), and Financial Business $ 108.2 million (15.7 percent).

2.5.2 Worker's Remittances

In Jul-Jan FY2024, workers' remittances recorded at $ 15.8 billion ($ 16.3 billion last year), decreased by 3.0 percent. YoY remittances increased by 26.2 percent in January 2024 ($ 2.39 billion) as compared to January 2023 ($ 1.90 billion) whereas remittances increased marginally by 0.6 percent in January 2024 ($2.39 billion) as compared to December 2023 ($ 2.38 billion) owing of structural reforms related to exchange company and consequently convergence in exchange rate in interbank and open markets. Share of remittances from Saudi Arabia remained 24.2 percent ($ 3841.4 million), U.A.E 17.3 percent ($ 2736.1 million), U.K 14.8 percent ($ 2350.2 million), USA 11.7 percent ($ 1859.9 million), other GCC countries 11.0 percent ($ 1741.9 million), EU 12.5 percent ($ 1985.1 million), Australia 2.2 percent ($ 344.3 million), and other countries 6.2 percent ($ 973.4 million).

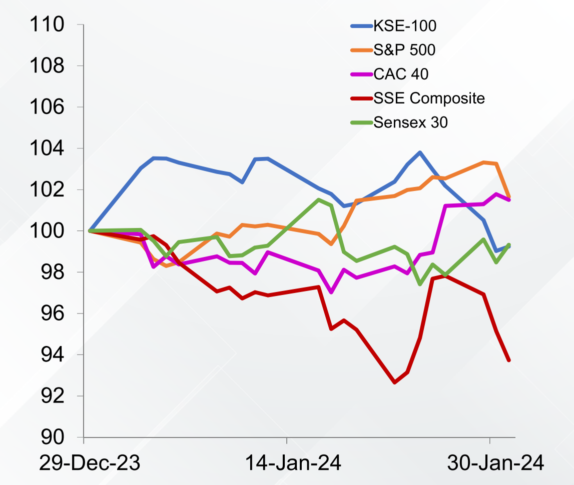
2.5.3 Foreign Exchange Reserves

Pakistan's total liquid foreign exchange reserves increased to $ 13.0 billion on February 27, 2024, with SBP's reserves stood at $ 7.9 billion and Commercial banks' reserves remained at $ 5.1 billion.

2.6 Performance of KSE Index

The performance of Pakistan Stock Exchange (PSX) remained volatile in the month of January 2024 owing to the political uncertainty and General Elections. The benchmark of PSX, KSE-100 index closed at 61,979 points as of 31st January 2024, lost 472 points compared to end December 2023. Similarly, market capitalization of PSX

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.

decreased by around Rs 11 billion and settled at Rs 9,074 billion as of end January 2024. During the month of January, the performance of major world stock market indices showing mix picture. SSE Composite of China declined by 6.3 percent followed by KSE-100 index (-0.8 percent) and Sensex 30 of India (-0.7 percent). However, S&P 500 of US and CAC 40 of France increased by 1.7 percent and 1.5 percent respectively. The performance of major world indices indexed at 100 is depicted in Figure below.

2.7 Social Sector

- BISP has increased the amount of Kafaalat stipend upto Rs 10,500 for 9.2 million beneficiaries to provide financial relief across the country.
- The quarterly Benazir Education Stipends will be issued from the month of March including Rs 2500 (Primary), Rs 3500 (Secondary) and Rs 4500 (higher secondary) for the girl students. While for the boy students, Rs 2,000 (primary), Rs 3,000 (secondary) and Rs 4,000 (higher secondary) will be issued during the same period.
- PPAF through its 24 Partner Organizations has disbursed 28,321 interest free loans amounting to Rs 1.25 billion during the month of January, 2024. Since inception of interest free loan component, a total of 2,624,303 interest free loans amounting to Rs 99.35 billion have been disbursed to the borrowers.
- Pakistan is one of the largest labour exporting countries in the region. During January, 2024 Bureau of Emigration & Overseas Employment has registered 60694 for overseas employment in different countries.
- Under Prime Minister Youth Business & Agriculture Loan Scheme the government has disbursed Rs 66,267 million till December, 2023 to 107,813 beneficiaries for business.

Economic Outlook

3.1 Inflation

In February 2024, the administered prices of petrol and diesel increased in response to a notable surge in crude oil prices, highlighting the direct influence of global market dynamics on domestic fuel costs. Despite the upward adjustment in transportation expenses and gas prices, the inflation outlook for the upcoming month may have a downward trend, primarily due to a decrease in the prices of perishable items on the back of better crops and ease in supplies. Additionally, the high base effect would further contribute to keep the inflationary pressure on the lower side. Meanwhile, the Food and Agriculture Organization's food price index, which tracks the most globally traded food commodities, averaged 118.0 points in January 2024 down by 1.0 percent from December level as decreases in the price indices for cereals and meat more than offset an increase in the sugar price index, while those for dairy and vegetable oils only registered slight adjustments.

Considering these factors, inflation is projected to hover around 24.5-25.5 percent in February 2024, with expectations of a further easing to 23.5-24.5 percent in March 2024.

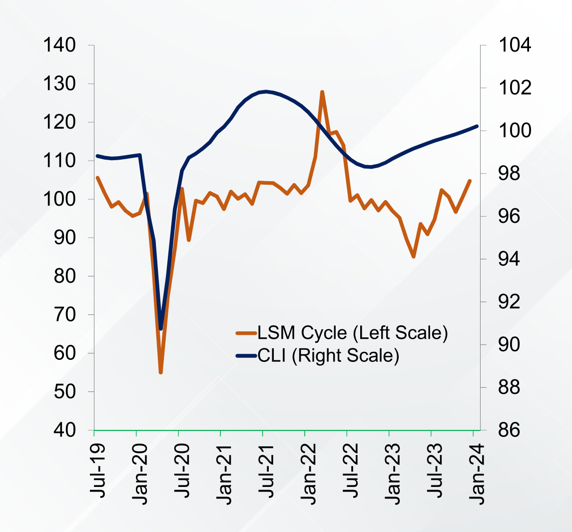
3.2 Agriculture

The input situation is favorable. Weather is an important component in achieving the production targets of Rabi 2023-24. The PMD's weather outlook for February 2024, shows that a moderate amount of water would be available for standing crops and vegetables having a positive impact on Rabi crops. Farmers in Barani areas may plan scheduled watering.

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

Fig-6: Relationship between CLI and LSM cycle



Source: PBS, OECD and EAW Calculations

Fig-7: Monthly Economic Indicator (MEI)

Source: EA Wing's Calculation

sectors and not on total GDP, it is somewhat more volatile than the cyclical component of GDP in Pakistan's main export markets.

The LSM activity since April 2023 followed an upward trend, aligning with the growth observed in the output gap of Pakistan's main export areas. This suggests a positive momentum in industrial production. Both have now reached a level above the neutral benchmark. However, in the case of Pakistan, volatility remains high, and it is not excluded that in January 2024, the seasonally adjusted LSM output may marginally fall back below its potential. In this respect, it can be observed that in January 2024 total cement dispatches showed a significant YoY decline, whereas the YoY growth rate of total production of all vehicles also remained subdued.

The LSM activity increased by 3.4 percent YoY in December 2023 while on MoM it has witnessed a sharp rise of 15.7 percent in December 2023 over November 2023. It is therefore expected that despite challenges such as volatility and specific sectoral slowdown, the positive trend in LSM growth will continue in the remaining months of the current fiscal year.

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 fiscal year in which the National Accounts are not yet available on the same frequency. The figure presents the MEI every month since July 2019. It should be noted that some of the data underlying the January 2024 MEI are still provisional and may be revised next month.

The restrictive stance of monetary policy and limited fiscal space are posing numerous challenges to stimulating the economy. Despite the domestic challenges, there is some optimism regarding Pakistan's export markets. The weighted average cyclical conditions in Pakistan's main export markets are improving which will be supportive in providing a boost to export-oriented industries and thus overall economic growth. Despite some important headwinds, the MEI remains in positive territory, indicating a gradual recovery in economic activities.

The economy is benefitting from stabilization measures leading to restoring business confidence. The KSE-100 index started to rebound at the end of 2023 and has remained at a higher level since then. The rebound in stock prices is confirmed by a simultaneous rebound in overall business confidence. In addition, the stability in the exchange rate also ensures a conducive environment for economic growth thus reducing uncertainty.

3.5 External

During January – 2024, exports of goods and services increased by 15.8 percent on YoY basis, due to observed expansion in domestic economic activities and revived economic situation in Pakistan's main exports destinations. However, on MoM basis it decreased by 4.4 percent, due to negative seasonal effect in January. On the other hand, imports of goods and services increased by 21.3 and 11.0 percent on YoY and MoM basis respectively. Higher imports have been reflected in the trade deficit of goods and services, which increased by 31.1 and 48.9 percent on YoY and MoM basis, respectively. The current account balance has been partially offset by remittances – posted significant growth of 26.2 percent on YOY basis – despite negative seasonal effect. Current account turns to deficit of US$ 269 million in January - 2024 as compared surplus of US$ 404 million in December – 2023. In the current baseline scenario, an improvement and recovery has been expected in exports, imports and remittances on a monthly basis. As a result, current account will remain in manageable limit during remaining months of FY2024.

3.6 Fiscal

On the revenue side, FBR tax collection has shown a remarkable performance by posting a growth of around 30.0 percent during Jul-Jan FY2024. The actual collection exceeded the target by Rs 35 billion during the first seven months of the current fiscal year. The positive growth trends in tax collection are indicative of improving economic conditions, gradual recovery in business activities, and effective enforcement measures. Consequently, the revenue landscape presents a promising outlook, characterized by substantial growth across various tax components.

In contrast, higher markup payments are putting significant pressure on expenditures. However, the government's persistent efforts to curtail non-markup expenditures through austerity measures have facilitated a continuous improvement in primary surplus. It is therefore expected that the continuity of fiscal consolidation efforts will support maintaining the fiscal deficit within manageable limits.

3.7 Final Remarks

The inflation outlook for the upcoming month points towards a downward trajectory owing to better crops and a smooth supply of commodities. Similarly, favorable input situations are set to bolster Rabi crop production. On the other hand, industrial activity in December remained positive despite a specific sectoral slowdown. Notwithstanding, restrictive monetary and fiscal policies, the optimism is fueled by improvements in cyclical conditions in Pakistan's export markets facilitating steady economic recovery. The stabilization measures encouraging business confidence coupled with exchange rate stability, contribute to a positive economic outlook for Pakistan amidst ongoing challenges.

ECONOMIC INDICATORS

External Sector		2022-23 Jul-Jan	2023-24 Jul-Jan	% Change
Remittances ($ Billion)		16.3	15.8	▼ 3.0%
Exports FOB ($ billion)		16.4	18.0	▲ 9.3%
Imports FOB ($ billion)		33.5	29.8	▼ 11.1%
Current Account Deficit ($ billion)		3.8	1.1	▼ 71.2%
FDI ($ million)		876.8	689.5	▼ 21.4%
Total Portfolion Investment ($ million)		-1,025.5	96.5	▲
Total Foreign Investment ($ million)		-148.8	785.9	▲
Forex Reserves ($ Billion)	Total	9.259	13.005	-
	SBP	3.805	7.949	-
	Banks	5.454	5.056	-
		27-Feb-23	27-Feb-24	
Exchange Rate (PKR/US$)		259.33	279.28	-
		27-Feb-23	27-Feb-24	

Source: SBP

Fiscal Sector (Rs. Billion)	2022-23 (Jul-Dec)	2023-24 (Jul-Dec)	% Change
FBR Revenue (Jul-Jan)	3966.4	5149.6	▲ 29.8%
Non-Tax Revenue (Federal)	914.0	1979.0	▲ 116.5%
PSDP (Federal)	161.7	152.1	▼ 5.9%
Fiscal Deficit	1683.5	2407.8	▲ 43.0%
Primary Balance	890.0	1812.0	▲ 103.6%

Source: FBR & Budget Wing

Monetary Sector	2022-23	2023-24	% Change
Agriculture Credit (Provisional) Jul-Dec	842.4	1,105.8	▲ 31.3%
Credit to Private Sector (Flows)	488.8	97.5	▼ 80.1%
	1-Jul to 3-Feb	1-Jul to 2-Feb	
Growth in M2 (percent)	1.5	2.5	-
	1-Jul to 3-Feb	1-Jul to 2-Feb	
Policy Rate (percent)	17.00	22.00	-
	23-Jan-23	29-Jan-24	

Source: SBP

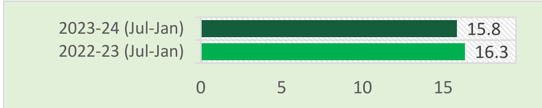
Inflation	2022-23	2023-24	% Change
CPI (National) %	27.6	28.3	-
	(Jan)	(Jan)	
	25.4	28.7	-
	(Jul-Jan)	(Jul-Jan)	

Real Sector	2022-23	2023-24	% Change
Large Scale Manufacturing (LSM) %	-1.10	3.40	-
	(Dec)	(Dec)	
	-2.10	-0.40	-
	(Jul-Dec)	(Jul-Dec)	
PSX Index *	43899	63219	▲ 44.0%
	3-Jul-23	27-Feb-24	
Market Capitalization (Rs trillion)	6.69	9.09	▲ 35.9%
	3-Jul-23	27-Feb-24	
Market Capitalization ($ billion)	23.39	32.54	▲ 39.1%
	3-Jul-23	27-Feb-24	
Incorporation of Companies (Jul-Jan)	16,104	16,987	▲ 5.5%

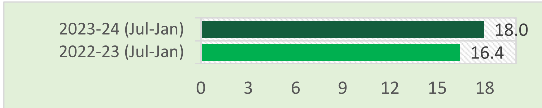
* : Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP

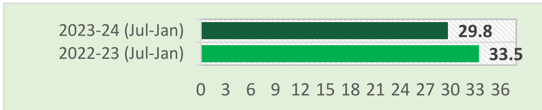
Remittances ($ bn) ▼ 3.0%



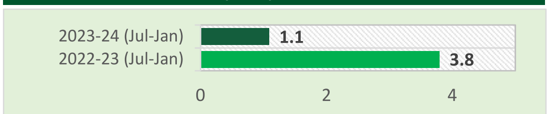
Exports FOB ($ bn) ▲ 9.3%



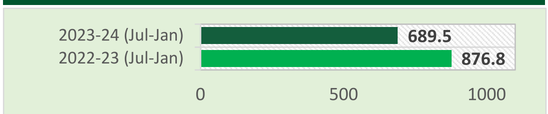
Imports FOB ($ bn) ▼ 11.1%



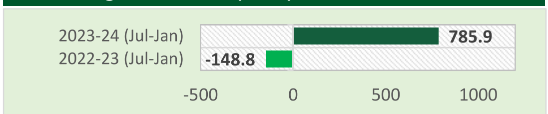
Current Account Deficit ($ bn) ▼ 71.2%



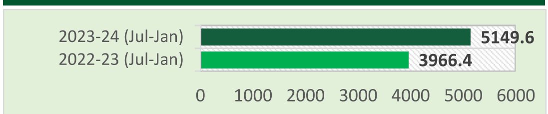
FDI ($ mn) ▼ 21.4%



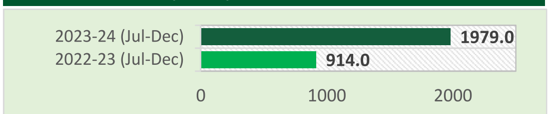
Total Foreign Investment ($ mn)



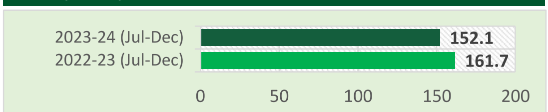
FBR Revenue (Rs.bn) ▲ 29.8%



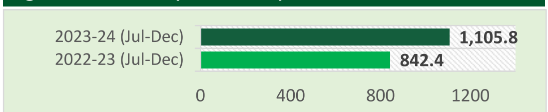
Non-Tax Revenue (Rs.bn) ▲ 116.5%



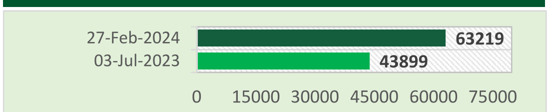
PSDP (Rs.bn) ▼ 5.9%



Agriculture Credit (Provisional) ▲ 31.3%



PSX Index ▲ 44.0%



Market Capitalization (Rs. bn) ▲ 35.9%

Market Capitalization ($ bn) ▲ 39.1%