



Economic Update

Pakistan's economy is indicating positive developments during the first two months of FY2025 as most of the economic indicators have shown improvement. Inflation has dropped to single digit, industrial output has increased, and large exporting sectors have witnessed growth, reflecting an optimistic outlook for exports. The current account deficit contracted, while the fiscal sector remained resilient, mainly attributed to prudent measures. This trajectory is expected to continue in the coming months.

Agriculture sector is adapting modernization and innovation in farming practices; an elevation in yield is expected.

During FY2025 (July-August), imports of agricultural machinery & implements increased by 105.6 percent to \$17.6 million compared to the same period last year. This growing commitment to mechanization and innovation in farming practices is expected to enhance yield in coming months. Urea offtake during Kharif 2024 (Apr-Aug) recorded at 2,381 thousand tonnes, 13.6 percent less than Kharif 2023 and DAP offtake decreased by 21.9 percent compared to Kharif2023. The decline may be attributed to late sowing of Kharif crops as a result of climate change, lower prices of wheat and reduction in cotton acreage.

The Large-Scale Manufacturing (LSM) sector growth has rebounded after a long contraction.

LSM output increased by 2.4 percent in July 2024, rebounding from a contraction of 5.4 percent in July 2023, reflecting improved market conditions and policy support. During the period, 14 out of 22 sectors witnessed positive growth which includes, Textile, Food, Beverages, Wearing Apparel, Coke & Petroleum Products, Chemicals, Automobiles and Paper & Board. Textile, with the largest weight in LSM (18.2), turned positive after 24 months. Additionally, production and sales of all vehicles witnessed an increase of 19.5 percent and 16.3 percent respectively during Jul-Aug FY2025, of which Cars production increased by 15.0 percent and Trucks & Buses by 120.4 percent whereas Tractor production showed a decline of 26.9 percent. Total cement dispatches recorded 6.4 million tonnes during Jul-Aug FY2025, reflecting a 17.8 percent decline compared to the

same period last year. Domestic dispatches were 5.2 million tonnes, down 20.7 percent from 6.6 million tonnes last year, while exports witnessed a slight dip of 1.6 percent, falling from 1.18 million tonnes to 1.16 million tonnes.

CPI inflation dropped to single digit, further decrease is anticipated in near term.

CPI inflation receded to single digit, lowest in 34 months in August 2024, recorded at 9.6 percent on year-on-year basis compared to 27.4 percent in the same month last year. On MoM basis, it increased by 0.4 percent in August 2024 compared to an increase of 2.1 percent in the previous month and an increase of 1.7 percent in August 2023. Major drivers contributing to the Y-o-Y increase in CPI include perishable food items (41.0 percent), Housing, Water, Electricity, Gas and Fuels (22.2 percent), Health (17.8 percent), Clothing and Footwear (17.3 percent), Transport (3.2 percent), while non-perishable food items declined by 2.6 percent. SPI for the week ended on 19th September 2024, recorded a decrease of 0.52 percent as compared to previous week. This week, prices of 15 items declined, 19 items remained stable and 17 items increased.

Fiscal sector managed to retain the primary surplus.

In July FY2025, the net federal revenues grew by 7.2 percent to Rs 408.4 billion from Rs 380.9 billion last year. The growth in revenues has been realized on the back of 22.6 percent increase in tax collection and 20.5 percent rise in non-tax collection. The main contributor of non-tax revenues was the petroleum levy which surged to Rs 83.6 billion. Total expenditures grew by 19.2 percent to Rs 768.6 billion in July FY2025 against Rs 644.9 billion last year. Consequently, the fiscal deficit recorded at 0.3 percent of GDP as against 0.2 percent of GDP in the same month of last year. Primary balance managed to post a surplus of 0.1 percent of GDP compared to 0.3 percent of GDP last year. During Jul-Aug FY2025, the FBR net tax collection grew by 20.6 percent to Rs 1,456 billion as compared to Rs 1,207.5 billion same period last year. In August 2024, FBR collected 19.0 percent more taxes to reach Rs 796 billion from Rs 669 billion last year.

The external account is strengthening amid increased inflows.

The external account position has strengthened due to improved exports and remittances nevertheless imports also increased. During Jul-Aug FY2025, the current account registered a deficit of \$ 0.2 billion compared to \$ 0.9 billion last year however, it recorded a surplus of \$ 75 million in August 2024. During Jul-Aug FY2025, goods exports increased by 7.2 percent, reaching \$ 4.9 billion, while imports stood at \$ 9.5 billion, compared to \$ 8.4 billion last year leading to a trade deficit of \$ 4.7 billion. As per Pakistan Bureau of Statistics, the export commodities that registered notable positive growth include Rice (98.6%), Fruits & Vegetables (26.7%), Knitwear (7.2%), Bedwear (7.6%), Readymade Garments (17.9%), and Chemicals & Pharma products (9.7%). The major imports which registered rise include Petroleum crude (107%), Liquefied Natural Gas (10.7%), Fertilizer (622%), Machinery (15%), and Iron & steel scrap (4.1%). The service exports grew to \$1.2 billion (0.2%) and imports declined to \$ 1.7 billion (0.5%), resulting in a trade deficit of \$ 0.47 billion compared to \$ 0.48 billion last year. IT exports grew by 30.2% to \$0.6 billion against \$ 0.4 billion last year. Foreign Direct Investment (FDI) stood at \$ 350 million, 55.5 percent up from the previous year. The main contributors to this growth were China (\$175 million), Hong Kong (\$70 million), and the UK (\$43.5 million). The power sector received FDI of \$210 million, accounting for a 60 percent share, followed by Oil & Gas exploration with \$ 44.2 million (12.6% share). Moreover, private sector Foreign Portfolio Investment (FPI) had a net inflow of \$ 24 million, while Public FPI recorded a net inflow of \$78.2 million. Workers' remittances increased by 44% reaching \$5.9 billion, with the largest share from Saudi Arabia (25%). Pakistan's total liquid foreign exchange reserves were recorded at \$14.9 billion on Sep 20, 2024, with the State Bank of Pakistan's reserves at \$9.5 billion.

Policy rate is gradually decreasing while Pakistan Stock Market continues to trend upward.

Amid diminishing inflationary pressures, improved inflation expectations and business confidence, the Monetary Policy Committee (MPC) cut the policy rate by 200 basis points to 17.5 percent in its decision held on September 12, 2024. During 1st July – 30th August FY2025, money supply (M2) shows negative growth of 2.6 percent (Rs. -962.3 billion) compared to negative growth of 1.4 percent (Rs. -449.5 billion) last year.

In August 2024, the KSE-100 index hovered

around 78,000 points and closed at 78,488 points at month end. During the month, the KSE-100 index gained 601 points, while Market Capitalization increased by Rs 117 billion and settled at Rs 10,485 billion.

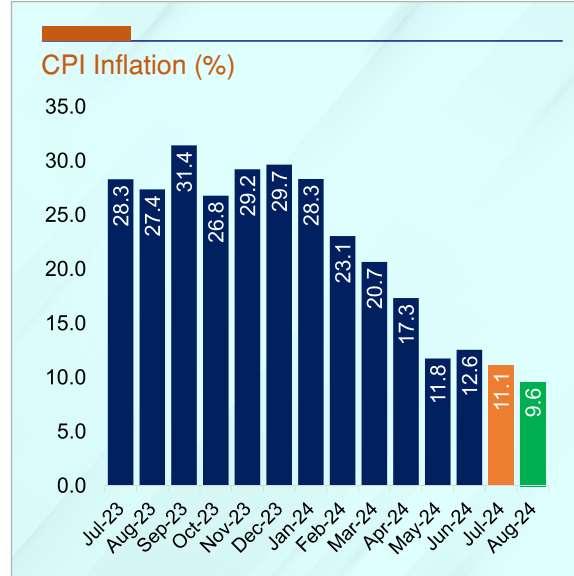
Social safety nets enhanced its horizon to digital literacy.

BISP has raised the quarterly installment of Kafalat Programme from 10,500 rupees to 13,500 rupees starting in January 2025 and the number of families benefiting will reach to 10 million (1 crore) by the end of this year. The BISP-GIZ partnership aims to enhance social protection, digital literacy, and skills development in KP's newly merged tribal districts, particularly in former FATA. Mobile Registration Vans will be deployed to ensure access to BISP services for vulnerable populations, while Dynamic Registry Centers will expand to improve registration and beneficiary management, and promote digital and financial literacy. In August 2024, PPAF disbursed 25,595 interest-free loans amounting to Rs 1.2 billion. Under Nashonuma Program, 0.5 million more families will be included in FY2025, to prevent stunting in first 1000 days of birth. To improve nutrition of children, government announced school meal program in 200 primary schools of ICT. Pakistan is one of the largest labour exporting countries in the region. During August, 2024 Bureau of Emigration & Overseas Employment has registered 70,143 workers, higher than 64,897 in July, 2024.

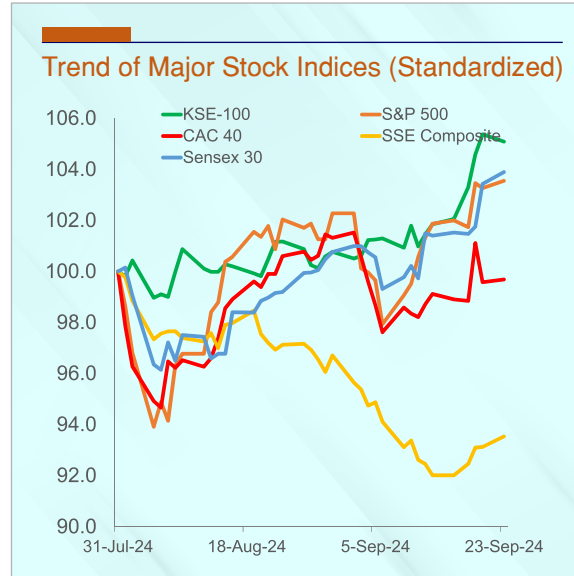
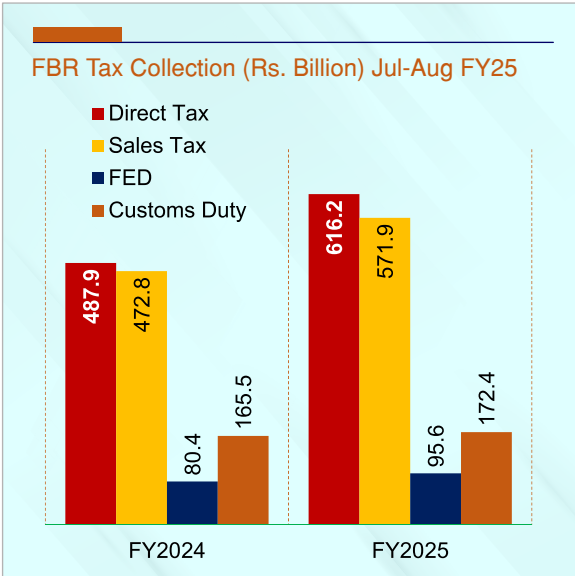
Economic Outlook

Following a phase of decline, LSM is now regaining its footing and major exporting sectors show readiness to scale up production. This recovery is expected to be bolstered by a favorable external environment, a stable exchange rate, and declining inflationary pressures. Moreover, an accommodative monetary policy stance, improved investor's confidence and the global market recovery, will provide additional support to foster the sustainable industrial growth. Government's commitment to fiscal consolidation will contribute to improved fiscal accounts. For agriculture, the outlook of Kharif 2024 production, weather being critical factor will pave the way for productivity. Inflation is expected to remain within the range of 8.0% to 9.0% in September and October 2024. On external front, it is expected that exports and imports will observe an increase in momentum. In September 2024, the exports are likely to remain within range of \$ 2.5-3.0 billion, imports \$4.5-5.0 billion and workers' remittances \$ 2.7-3.2 billion.

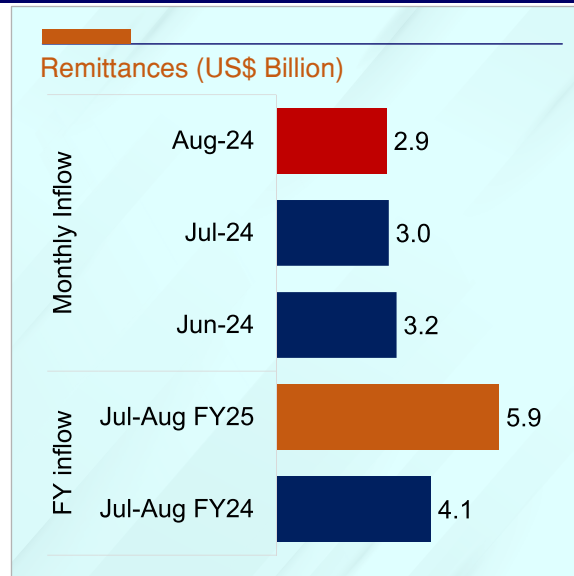
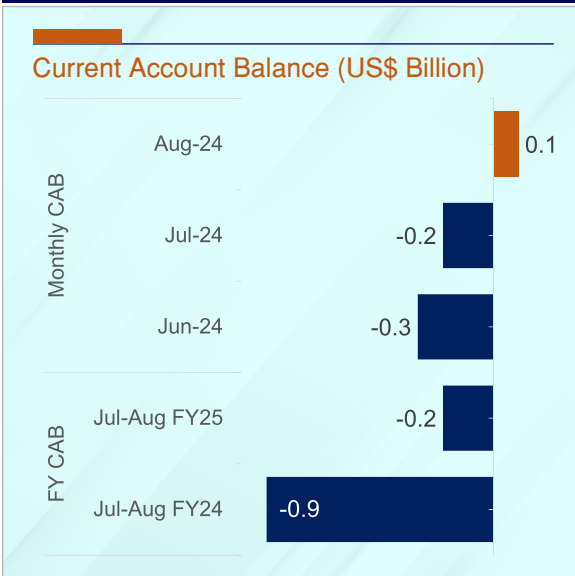
The large exporting sector in LSM witnessed a positive growth in July FY2025. Inflation in August FY2025 turned to single digit.



The economic recovery and prudent measures led to increase in tax collection. The Pakistan Stock Market has been trending upwards.



Current account balance achieved surplus on the back of better exports earnings, and higher remittances.



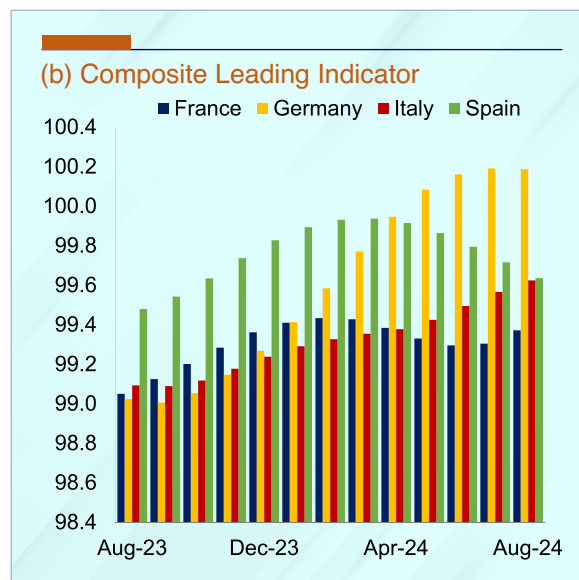
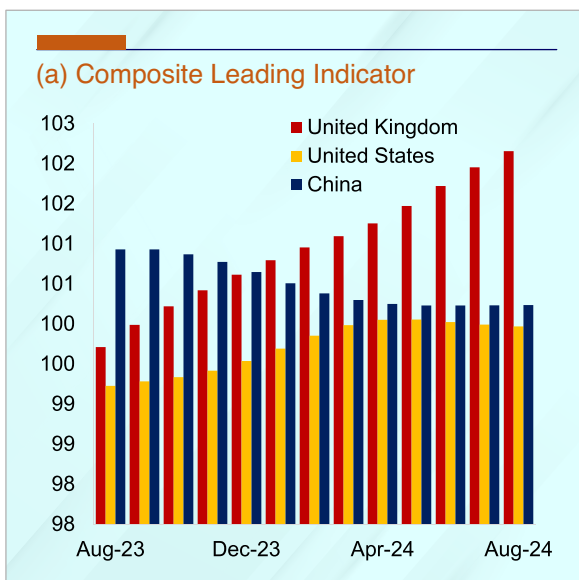
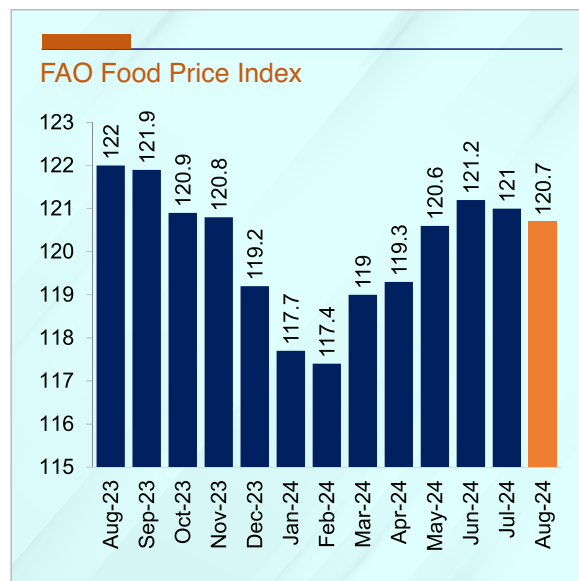
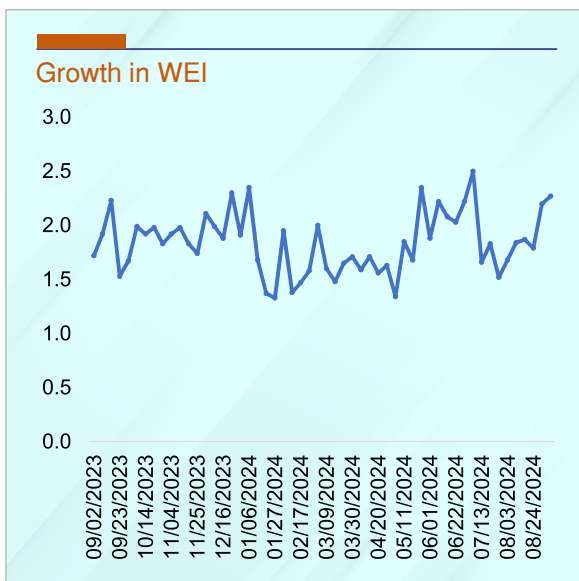
Global Economic Update and Outlook

Global Economic Outlook, September 2024 - Fitch Ratings expects world growth at 2.7% in 2024, 0.1 percentage higher than the June 2024 forecast. The growth has been revised on the basis of improved outlook for the US, UK, Brazil and Russia. China's to experience 4.5% growth in 2025 as rapid export growth eases. Eurozone growth will recover to 1.5% in 2025 from 0.8% this year. This mainly reflects the impact of a recovery in real wages, which has been weak since 2022.

The J.P.Morgan Global Composite Output Index –posted 52.8 in August, up from 52.5 in July and above the neutral 50.0 mark for the tenth month in a row. Global growth accelerates as service sector expansion offsets manufacturing weakness. The global expansion is also evident through the CLI position of Pakistan's main export markets of US, UK, China and euro area. The FAO Food Price

Index stood at 120.7 points in August 2024, marginally down from its revised figure for July at 121 points, as decreases in the price indices for sugar, meat and cereals outweighed increases in vegetable oils and dairy products. This value is 1.1% lower on YoY basis. Global commodity prices contracted mainly due to decline in energy prices led by crude oil and natural gas – food and metal prices also eased in August.

The Federal Reserve Open Market Committee has started interest rate cut and decided to reduce the federal fund rate by 50 basis points in a target range of 4.75%-5.00%. The decision was based on solid economic growth and labor market with a positive outlook and declining inflationary pressures.



Economic Indicators
(27-09-2024)

External Sector							
	FY2024	(July-August)		% Change	(August)		% Change
		FY2024	FY2025		FY2024	FY2025	
Remittances (\$ billion)	30.3	4.124	5.937	↑ 44.0	2.095	2.943	40.5
Exports FOB (\$ billion)	31.1	4.536	4.862	↑ 7.2	2.418	2.488	2.9
Imports FOB (\$ billion)	53.2	8.376	9.534	↑ 13.8	4.234	4.715	11.4
Current Account Deficit (\$ million)	665	893	171	↓ 80.9	152	-75	Surplus
FDI (\$ million)	1,902	225.2	350.3	↑ 55.5	142	214	50.7
Total Foreign Investment (\$ million)	1,519.1	252.0	453.2	↑ 79.9	146.4	148.2	1.2
Forex Reserves (\$ billion)	13.997 (SBP: 9.390) (Banks: 4.607) (End June)	13.079 (SBP: 7.618) (Banks: 5.461) (20 th Sep 2023)	14.873 (SBP: 9.533) (Banks: 5.340) (20 th Sep 2024)				
Exchange rate (PKR/US\$)	278.3 (End June)	293.89 (20 th Sep 2023)	277.84 (20 th Sep 2024)				

Source: SBP

Fiscal (Rs Billion)							
	FY2024	(July)		% Change	(August)		% Change
		FY2024	FY2025		FY2024	FY2025	
FBR Revenue (Jul-Aug)	9,311	1,207	1,456	↑ 20.6	669.1	796.3	19.0
Non-Tax Revenue (Federal)	3,050.5	139.4	168.0	↑ 20.5			
Fiscal Deficit	7,206.9	225.3	387.8	↑ 72.1			
Primary Balance	952.9	311.2	107.1	↓ 65.6			

Source: FBR & Budget Wing

Monetary Sector (Rs Billion)			
	FY2024	FY2024	FY2025
Credit to private sector (Flows)	364.2	-282.3 (1 st Jul to 08 th Sep)	-376.4 (1 st Jul to 06 th Sep)
Growth in M2 (percent)	16.1	-0.8 (1 st Jul to 08 th Sep)	-2.6 (1 st Jul to 06 th Sep)
Policy Rate (percent)	20.5 (End June)	22.0 (14-Sep-2023)	17.5 (12-Sep-2024)

Source: SBP

Real Sector (Percent)			
	FY2024	FY2024	FY2025
CPI (National)	23.4	27.4 (Aug) 27.8 (Jul-Aug)	9.6 (Aug) 10.4 (Jul-Aug)
Large Scale Manufacturing (LSM)	0.9	-5.4 (Jul)	2.4 (Jul)

Source: PBS

Financial Sector				
	FY2024	FY2024	FY2025	% Change
PSX Index*	78,445 (30 th June 2024)	45,889 (24 th Sep 2023)	81,658 (26 th Sep 2024)	↑ 77.9
Market Capitalization (Rs trillion)	10.38 (30 th June 2024)	6.80 (24 th Sep 2023)	10.71 (26 th Sep 2024)	↑ 57.5
Market Capitalization (\$ billion)	37.28 (30 th June 2024)	23.23 (24 th Sep 2023)	38.56 (26 th Sep 2024)	↑ 66.0
Incorporation of Companies (Jul-Aug)	26,939	5,039	5,780	↑ 14.7

*: Formerly Karachi Stock Exchange (KSE)

Source: PBS, PSX & SECP