Prime Plus
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A Quarterly Report on Pakistan's Economy with Special Section on Performance of State Owned Enterprises

Policy Research Institute of Market Economy

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OVERVIEW

In the **first section** of the report, the performance of the state-owned enterprises is evaluated. The analysis comprises review of the financial performance of the enterprises. The report analyses the profit and loss generated by enterprises and burden borne by the national exchequer.

In **Section 2** we present economic data on major macro indicators including Inflation, Current Account, Public Debt, Foreign Direct Investment, Government borrowing, and a general trend of how the economy is behaving, where we reach the conclusion that Pakistan's economy is currently facing insurmountable challenges and not performing at its potential level.

Section 3 paints an economic outlook of the country. Pakistan like other countries around the globe is experiencing inflationary pressures, which have started to moderate due to tight monetary policy. The economic activity remains subdued due to disruptive trade policies, prevalence of supply chain bottlenecks and severity of problems in the energy sector. Therefore, proactive measures at the fiscal and monetary policy fronts along with easing of trade restrictions to mitigate the slowdown of the economy. Furthermore, reforms are needed in the energy sector to ensure sustainability and promote economic activity in the country.

CONTENTS

LIST OF FIGURES

LIST OF TABLES

SECTION ONE: A CRITICAL ASSESSMENT OF SOEs FINANCIAL PERFORMANCE

Privatization crucial to ease burden of loss making SOEs on National Exchequer

1. Overview

The Federal State-Owned Enterprises (SOE) portfolio comprises 88 commercial SOEs and 45 non-commercial SOEs. Commercial SOEs represent 99% of the total assets owned by SOEs, nearly 100% of the total revenues and losses, and 96% of the total number of SOE employees. Due to their commercial mandate and significant share in assets, revenues, and losses within the overall Federal SOEs portfolio, commercial SOEs have been the primary target of privatization efforts, as mandated under the SOE triage (2021).

2. Commercial Portfolio

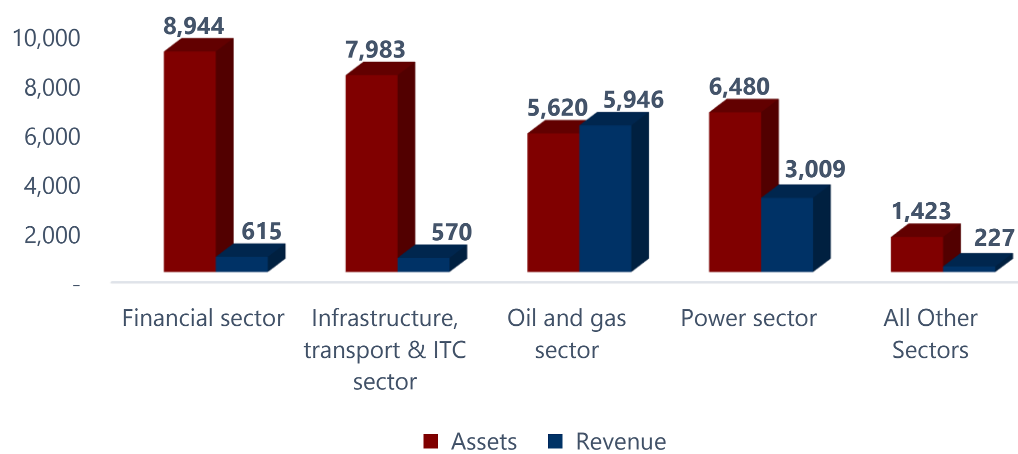
Commercial SOEs operate across 8 diverse sectors of the economy, further segmented into 25 sub-sectors. Major sectors such as Oil & Gas, Financial Services, Power Sector and Infrastructure, Transport, and ITC sector command significant portions of the asset base and profits or losses within the overall commercial SOEs portfolio. Conversely, sectors like Trade & Marketing, Manufacturing, Mining & Engineering, Industrial Estate Development, and Miscellaneous sectors contribute relatively minor shares to the asset base and profits (losses) of the portfolio.

As of June 2022, the total workforce employed by commercial SOEs stands at 349,573 individuals. These entities generated total revenues amounting to Rs. 10.366 trillion. Notably, dividends totaling Rs. 44.41 billion were distributed, and Rs. 386.402 million were paid as taxes to the federal government by commercial SOEs during the fiscal year 2021-22. The combined asset base of commercial SOEs reached Rs. 30.450 trillion by the end of FY 2021-22

2.1. Assets vs Revenue

According to the FY 2022 data, the financial sector holds the largest share (29%) of total assets across all sectors. However, its share in revenues is only 6%. Similarly, the ITC sector holds 26% of total SOEs assets with a revenue share of only 5%. On the other hand, the Power sector (21% assets) and Oil and Gas sector (18% assets) are the most efficient sectors in terms of revenue generation, with 29% and 57% shares in revenue, respectively. All other sectors collectively account for only 5% of the assets and 2% of the revenue earned by commercial SOEs during FY 2022.

Assets Vs Revenue FY 2022 (Rs. in Billion)



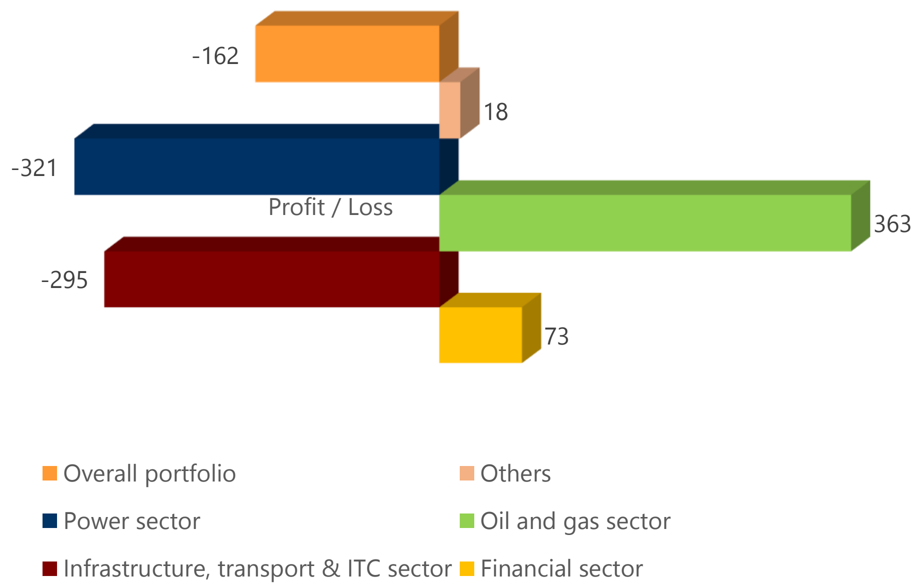
Source: SOE Consolidated Report FY 20-22, MoF

2.2. Profit and loss

Similarly, to assets and revenue, significant disparities exist among sectors in terms of financial performance. The sector-wise breakdown of the Rs. 161.8 billion losses incurred by the commercial SOE portfolio in FY 2022 reveals that the Power Sector and ITC Sector were the major contributors towards the overall loss, incurring losses of Rs. 321 billion and Rs. 295 billion, respectively, during the fiscal year.

Conversely, the major contributors towards the profitability of the portfolio were the Oil & Gas sectors and Financial Sector, which generated Rs. 363 billion and Rs. 73 billion of net profit, respectively, during FY 2022. All other sectors combined produced Rs. 18 billion of profit during the same period.

Sector Wise Profit / Loss FY 2022 (PKR in Billion)

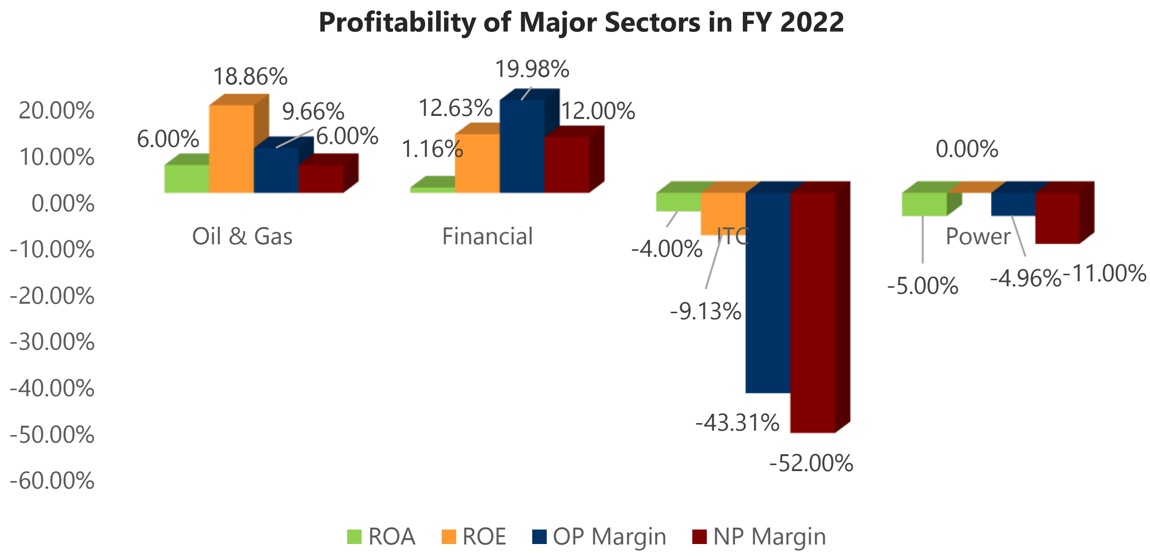


Source: SOE Consolidated Report FY 20-22, MoF

The concentration of profits and losses within the commercial SOE portfolio highlights the significant role played by specific sectors. It comes as no surprise that the top ten profit-making and top ten loss-making entities belong to sectors with major contributions towards the profits or losses of the portfolio.

On the loss-making side, seven out of the ten largest loss-making SOEs are DISCOs, while the remaining three entities belong to the ICT sector. The combined losses of DISCOs amounted to Rs. 375.81 billion in FY 2022 alone.

Furthermore, a profitability analysis underscores that the Oil & Gas and financial sectors emerge as the most profitable, whereas the ICT and Power sectors rank as the least profitable.



Source: SOE Consolidated Report FY 20-22, MoF

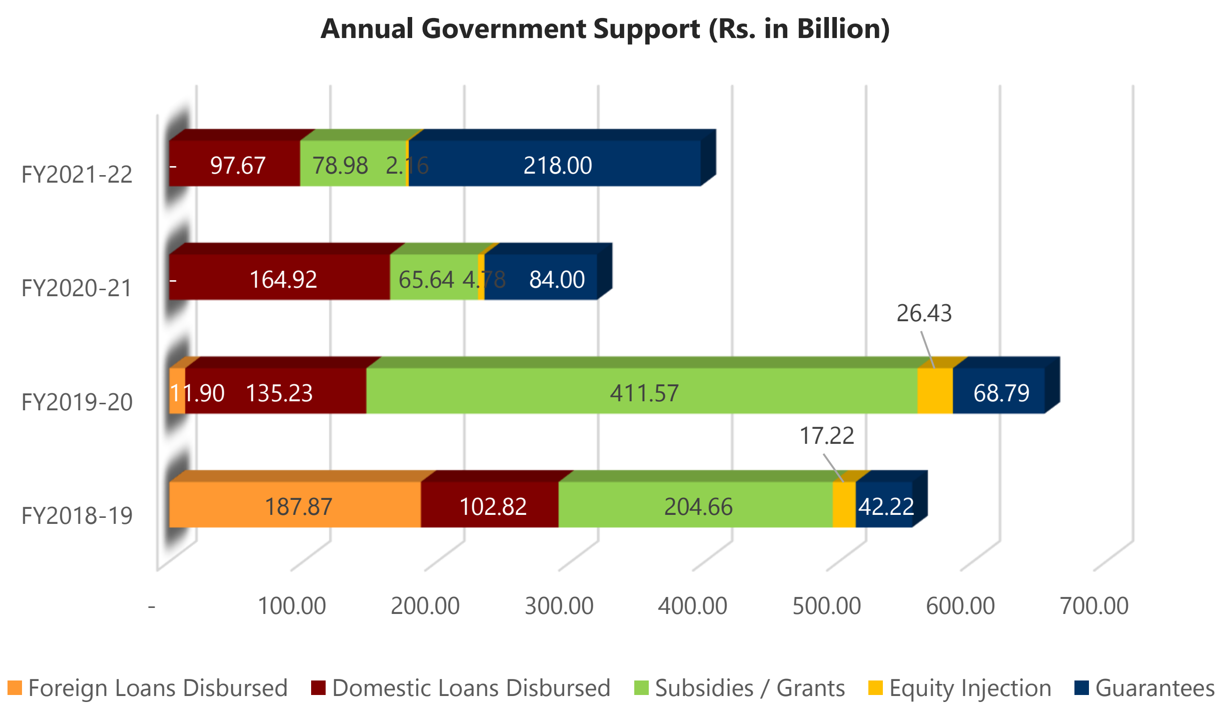
3. Government Support

Government support for federal commercial SOEs can take various forms, including the disbursement of foreign and domestic loans, the granting of subsidies, injecting new equity capital, and extending guarantees to lenders on behalf of SOEs.

Over the four-year period from FY 2019 to FY 2022, government support to federal commercial SOEs amounted to Rs. 1.93 trillion. Subsidies have been the most common form of support, with over Rs. 760.8 billion granted to commercial SOEs during this period. The second most prevalent form of support has been the disbursement of domestic loans by the Federal Government, totalling Rs. 500.645 billion from FY 2019 to FY 2022.

The third common form of support has been the provision of government guarantees on behalf of SOEs, with Rs. 218 billion outstanding as of June 2022. Foreign loans equivalent to Rs. 199.8 billion were disbursed to commercial SOEs during FY 2019 and FY 2020, although no foreign loans were disbursed during FY 2021 and FY 2022.

Injecting new equity capital has been the least common method of government support, with Rs. 50.6 billion injected into SOEs during the four-year period. In summary, a slightly decreasing trend in government support to SOEs has been observed, with the highest government support of Rs. 653.9 billion provided in FY 2020, decreasing to Rs. 396.8 billion in FY 2022.

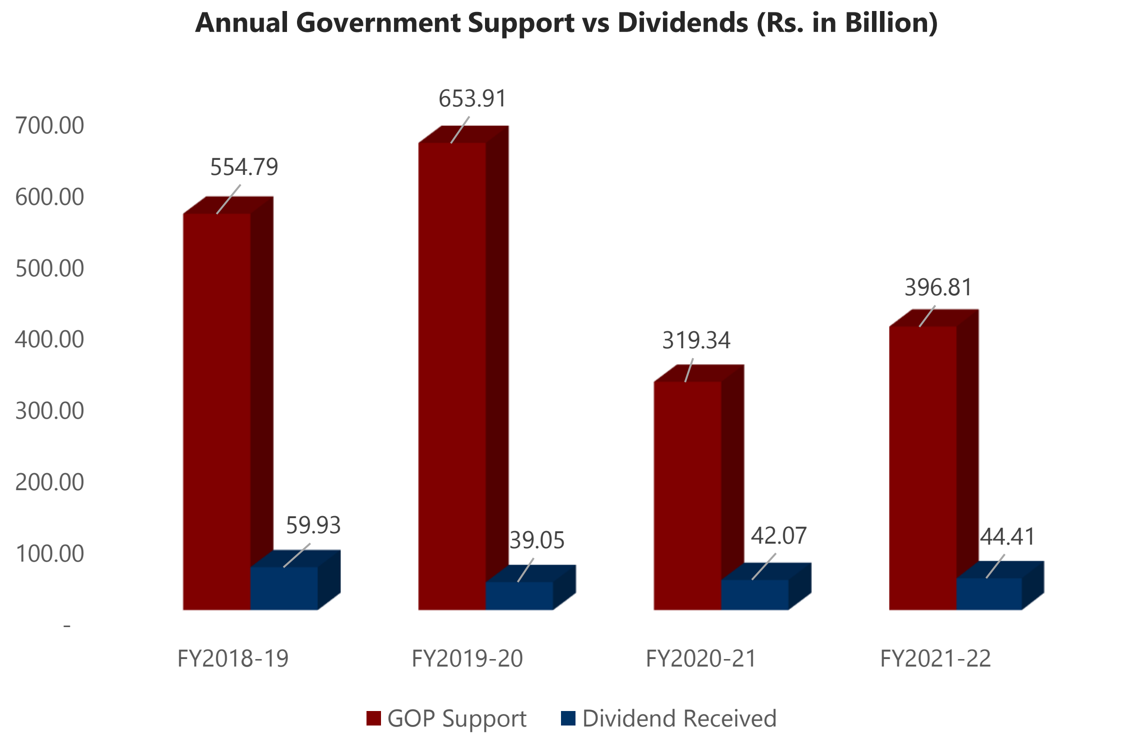


Source: SOE Consolidated Report FY 20-22, MoF)

As the commercial SOEs are owned and controlled by the Federal Government of Pakistan, dividend payments from SOEs are received by the government. A total of Rs. 185.5 billion in dividends were received by the government during the four-year period from FY 2019 to FY 2022.

FY 2019 saw the highest dividends, amounting to Rs. 59.9 billion, followed by a sharp decline in the following year, with dividends dropping to Rs. 39 billion in FY 2020. There was a slight upward trend in dividend receipts in FY 2021 and FY 2022.
A sector-wise analysis of the dividends reveals that 89% of the total dividends during the four-year period were received from the Oil & Gas Sector alone, followed by 6% from the financial sector and 3% from the ITC sector. All other sectors combined accounted for a mere 2% of the total dividends during the period.

There exists a significant disparity between the support the government has extended to SOEs and the dividends it has received during the period from FY 2019 to FY 2022. A yearly comparison between government support and dividends received is presented in the following graph.



Source: SOE Consolidated Report FY 20-22, MoF

4. Financial analysis

For comparative analysis of selected State-Owned Enterprises (SOEs) and privately-owned entities in Pakistan, sectors from both the profitable and loss-making segments of the commercial SOE portfolio were identified and the private enterprises working in the same sector were identified. The selection process exclusively focused on entities listed on the Pakistan Stock Exchange (PSX) for consistency and transparency. Financial data for SOEs was sourced from the SOE Annual Report 2023 and company annual reports. The chosen timeframe spanned four fiscal years from FY2019 to FY2022. The analysis focused on profitability, liquidity, debt burden, and efficiency. This comparative analysis aims to provide actionable insights for stakeholders.

4.1. Oil & Gas Marketing Sector

The Oil and Gas sector, a highly regulated sector, stands out as the most profitable segment within the SOE portfolio. This sector is subdivided into oil and gas exploration, and oil and gas marketing subsectors. For analysis, the Oil and Gas marketing subsector was chosen due to its representation of both state-owned (PSO) and privately-owned (Shell & Attock Petroleum) companies. Here are the average key financial ratios calculated based on four years of data:

Table 1: Key Financial Ratios-Oil & Gas Sector

	PSO	Competitors
Operating Margin	2.62%	1.61%
Net profit Margin	1.38%	1.01%
Return on Equity (ROE)	14.18%	12.37%
Return on Assets (ROA)	3.98%	3.60%
Current Ratio	1.3	1.0
Debt/Equity	2.42	3.52
Debt ratio	0.70	0.77
Total Assets Turnover	2.92	3.62

Source: Author's calculations based on SOE Consolidated report and company annual reports

The comparison of PSO ratios with those of its competitors suggests that PSO's profitability has consistently outperformed the competition, as evidenced by superior profitability ratios throughout the period analyzed. Furthermore, PSO has maintained higher liquidity levels compared to its competitors, as indicated by its consistently higher average current ratio. Analysis of debt ratios reveals that PSO carries less debt in comparison to its private sector counterparts.

However, PSO lags behind its competitors in terms of asset utilization efficiency for generating sales revenue. The average total assets turnover for PSO during the period stood at 2.92, whereas Shell and Attock Petroleum achieved an average total assets turnover of 3.62.

4.2. Banking Sector

Banking sector is the second most profitable sector of the SOE portfolio and is also a highly regulated sector. National Bank of Pakistan (NBP) was selected to represent the SOE portfolio while Habib Bank Limited (HBL), United Bank Limited (UBL) and MCB Bank Limited (MCB) were selected due to being close competitors of the NBP in the banking sector. Key financial ratios for the period are presented below:

Key Financial Ratios-Financial Sector		
	NBP	**Competitors**
Return on Equity (ROE)	9.53%	12.56%
Return on Assets (ROA)	0.70%	0.99%
Current Ratio	0.80	2.21
Equity Multiplier	12.58	0.17
Net Interest Margin	2.63%	3.43%

Source: Author's calculations based on SOE Consolidated report and company annual reports

The profitability of private sector competitors has consistently outperformed that of the National Bank of Pakistan (NBP), evidenced by higher Return on Assets (ROA) and Return on Equity (ROE). This signifies that the equity deployed by private sector banks have yielded ROE more than 3% higher than NBP during the analysis period.

Furthermore, despite an increase in debt levels among competitors over the period, their debt ratios remain lower than those of NBP. This indicates that private sector banks have operated at a lower level of financial risk compared to NBP.

Lastly, the average net interest margin earned by private banks from FY 2019 to FY 2022 has been 1% higher than that of NBP. This underscores that interest-earning assets held by private sector banks have generated higher interest compared to those held by the State-Owned National Bank of Pakistan.

4.3. Engineering (Steel) Sector

While Pakistan Steel Mills (PSM) lacks a direct competitor due to the unique nature and scope of its business, comparative analysis was conducted with Aisha Steel, Amreli Steel, and Mughal Steel, all serving similar markets. The comparison of average financial ratios for PSM and its competitors over the FY 2019-2022 period is as follows:

Key Financial Ratios-Engineering Sector		
	PSM	**Competitors**
Operating Margin	-1045.78%	7.23%
Net profit Margin	-2071.93%	3.19%
Return on Equity (ROE)	-7.03%	10.44%
Return on Assets (ROA)	-2.90%	3.87%
Current Ratio	0.1	1.0
Debt/Equity	1.17	2.06
Debt ratio	0.53	0.67
Total Assets Turnover	0.00	1.06

Source: Author's calculations based on SOE Consolidated report and company annual reports

Throughout the period, production at Pakistan Steel Mills (PSM) remained halted, resulting in no revenue generation. Conversely, private sector steel mills have achieved an average Return on Equity (ROE) exceeding 10%, whereas PSM incurred a loss of over 7% on equity during the same period.

The liquidity position of private steel mills, reflected by the current ratio, is notably stronger than that of PSM. However, it's worth noting that PSM carries less debt compared to private enterprises, as evidenced by the lower debt ratio. Private enterprises, on average, have generated sales equivalent to 106% of their assets during the period. In contrast, PSM was unable to generate any sales revenue due to the cessation of production throughout the entire period.

4.4. Power (Generation) Sector

Four Power Generation Plants from the SOE subsector of Power Generation (GENCO-I, GENCO-II, GENCO-III & GENCO-IV) were selected to represent the State-Owned Power generation, while three Power Generation Companies namely Hub Power Company (HUBCO), Lalpir Power Company and Nishat Chunian Power were selected to represent the Private sector power generation. Comparative financial analysis based on GENCOs (I-IV) and selected competitors is produced below:

Key Financial Ratios- Power Sector		
	GENCOs	**IPPs**
Operating Margin	0.67%	32.36%
Net profit Margin	-2.06%	31.77%
Return on Equity (ROE)	-5.00%	21.53%
Return on Assets (ROA)	-0.30%	8.99%
Current Ratio	0.6	1.3
Debt/Equity	7.30	1.72
Debt ratio	0.87	0.6
Total Assets Turnover	0.24	0.30

Source: Author's calculations based on SOE Consolidated report and company annual reports)

Private sector power producers have, on average, achieved operating margins exceeding 32% and net margins surpassing 31%. In contrast, State-Owned Generating Companies (GENCOs) have essentially operated at a breakeven point in terms of operating margins and incurred a net loss of over 2%. This stark contrast highlights the growing operational inefficiencies within state-owned power producers.

Furthermore, Independent Power Producers (IPPs) have maintained a significantly healthier liquidity position compared to GENCOs, evident from a consistently maintained current ratio of over 1 throughout the period under review. The debt-to-equity ratio and debt ratio of IPPs have both improved over time, indicating a reduction in debt levels and an enhancement of equity levels. This stands in stark contrast to GENCOs, which have witnessed a decline in equity due to sustained losses.

Lastly, private producers have demonstrated an improvement in efficiency in utilizing total assets to generate sales revenue over the period as indicated by higher total assets turnover. In contrast, GENCOs have shown lower efficiency levels during the same period.

5. Conclusion & recommendations

As the profit (loss) of the portfolio has been driven by the specific sectors, the government should prioritize the loss-making sectors for privatization. However, as indicated by lower profitability, higher debt, and lower efficiency of NBP, it can be inferred that even profitable SOEs are less efficient as compared to private sector counterparts, therefore privatization of SOEs irrespective of the financial performance has to be considered by the government. Especially in the sectors marked with ample private sector presence, there is no rationale for state presence in those sectors. Privatization of ITC and the power sector SOEs specially DISCOs need to be accelerated to avoid the mounting financial burden. As the poor performance of SOEs has been a source of huge financial burden and risk for the government as indicated by the government support provided to the SOEs during the four-year analysis period, which can be reduced if the state footprint is restricted to only those sectors where private investment is not sufficient. Financial analysis of selected SOEs and comparison with the private sector competitors reveals that the except Oil and Gas Sector (PSO), which is highly regulated and protected sector, private sector entities are more profitable and efficient as compared to State-Owned Entities.

SECTION TWO: MACROECONOMIC ANALYSIS

Macroeconomic Analysis

Conflicts continued to dominate the global landscape as countries transitioned from one conflict to another. The Russia-Ukraine war has continued and Israel-Palestine war has turned into a genocide, which have significantly increased the global uncertainty. This genocide has brought multiple countries at the center stage, heightening tensions in the Middle East and causing trade disruptions in the Mediterranean Sea. Furthermore, this conflict is likely to lead to volatility in global energy prices. However, the global recovery from past crises appeared slow but steady, according to the World Economic Outlook April 2024. Global inflation is expected to decline from 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025, with developed economies achieving inflation targets sooner compared to emerging economies due to monetary tightening.

In Pakistan, the general elections were held in February, which promoted stability and ended the uncertainty revolving around the fate of elections. Although political parties have been reluctant to accept the outcome, the transition of power was carried out smoothly. The coalition government, standing on a tightrope, faces formidable challenges on the economic and political fronts. Although Pakistan has been able to complete the $3 billion Stand-By-Arrangement – IMF short-term facility with the last tranche pending approval from the Board. The talks on the new IMF program appear to be a crucial step in promoting economic stability in the country. The government has taken multiple steps to fulfil the requirements for the new IMF program, however, conditions and requirements are expected to remain difficult unless structural reforms are taken seriously. On the external front, the deterioration in relations with the neighbouring countries presented challenges and a significant hike in terrorism proved to be an uphill task.

The government envisaged a 3.5 percent growth in the budget but GDP growth in Q1 was 2.5 percent and 1 percent in Q2. Therefore, it is expected that the budgetary growth target will not be achieved. As a result, global financial institutions have revised down the growth forecasts to 2 percent. The economic and financial conditions of the country have improved in the last couple of months and slow recovery is observed both on the external and domestic fronts. In the third quarter of FY 2024 (January - March), the exchange rate presented stability, although contested by economists, giving credence to the government intervention.

Inflation

Inflation continues to pose challenges for the government and the public at large as people are experiencing continuous declines in their income and purchasing power. In the third quarter of FY 2024, the average CPI inflation stood at 24 percent as compared to 31.5 percent in FY 2023. The YoY CPI inflation in January, February, and March cloaked at 28.3 percent, 23.1 percent, and 20.7 percent respectively. The MoM CPI inflation in January, February, and March cloaked at 1.8 percent, 0 percent, and 1.7 percent. The average SPI inflation in the third quarter of FY 2024 stood at 30.8 percent and WPI inflation stood at 20.1 percent. The inflation in the first nine months of FY 2024 stood at 27.06 percent. The major underlying causes of inflation is the growth in the money supply Vis-à-vis the growth in the supply of goods. The price hike has resulted in lower demand. To make the capacity payments and stop circular debt from growing, the government is increasing prices as a quick fix instead of addressing the government's inefficiencies and bad policies. It is important to highlight that inflationary pressure from the external front has moderated as the exchange rate and currency remained relatively stable in the period under review.

Fiscal Sector

Higher expenditures on the fiscal side continue to strain public finances. The financial obligations related to debt servicing have increased substantially. It will be difficult for the government to adhere to the budgetary estimates.

The government collected Rs. 6,710 billion in the first nine months of FY 2024 as compared to Rs. 5,155 billion last year, a growth of 30 percent. Additionally, the total government expenditures increased by 49 percent to Rs. 7,532 billion against Rs. 5,058 billion in the first seven months of FY 2023. As a result, the fiscal deficit cloaked at 2.6 percent of GDP i.e. Rs. 2,721 billion in Jul-Jan FY 2024 from 2.3 percent of GDP i.e. Rs.1,974 billion last year.

The FBR collected Rs. 2,241 billion in the third quarter of FY 2024. Revenue collection in March was Rs. 897 billion. During the first nine months of FY 2024 (July-March), the FBR collected Rs 6.710 trillion, beating the Rs 6.707 trillion target by Rs 3 billion.

The total government spending outpaced the revenue collection and therefore, the government had to borrow money from domestic and external sources. In the third quarter of FY 2024, total government borrowing increased by Rs. 2,490 billion as compared to an increase of Rs. 1,959 billion last year. At the end of the third quarter of

FY 2024, the total government borrowing was cloaked at Rs. 28.2 trillion. The outstanding government borrowing from the State Bank of Pakistan stood at Rs. 4.5 trillion. The government borrowing from the scheduled banks increased by Rs. 1,405 billion in the third quarter of FY 2024 as compared to an increase of Rs. 1,646 billion last year. The outstanding credit from scheduled banks stood at Rs. 23.6 trillion.

The government borrowing from domestic and external sources to finance the fiscal deficit and external payments resulted in the accumulation of debt. The central government's public debt decreased by Rs. 400 billion in the first two months (Jan- Feb) of the third quarter of FY 2024 as compared to an increase of Rs. 3.1 trillion last year. The central government’s total debt stood at Rs. 64.8 trillion out of which domestic debt is Rs. 42.7 trillion and external debt is Rs. 22.1 trillion. The fall in outstanding central government debt is due to the appreciation of the rupee as compared to the dollar.

Foreign Investment

Foreign investment inflows into Pakistan declined in the first two months of the third quarter of FY 2024 as compared to the previous year. The net Foreign Direct Investment (FDI) was negative $42 million as compared to $323.5 million last year. The inflow of FDI was $362 million and the outflow was $404 million. Net FDI in Pakistan grew by $45 million during the first half of FY 2024 to $829.4 million from $784.4 million last year. The growth in foreign investment is due to improvement in the financial position of the country and political stability.

Credit to Private Sector

Private sector borrowing exhibited a declining trend in the first two months of the third quarter of FY 2024. The total private sector borrowing fell by Rs. 120 billion as compared to a fall of Rs. 219 billion last year.

The total private sector borrowing stood at Rs. 7.5 trillion till the end of February 2024. The long-term fixed financing (LTFF) declined by Rs. 15 billion in the first two months of the third quarter of FY 2024 as compared to an increase of Rs. 8 billion last year. The LTFF stood at Rs. 567 billion till the end of February 2024.

The short-term financing (working capital) declined by Rs. 31 billion in the first two months of the third quarter of FY 2024 as compared to a fall of Rs. 3 billion last year and total short-term financing stood at Rs. 315 billion at the end of February 2024. The private sector borrowing under the export financing scheme declined by Rs. 4 billion as compared to the fall of Rs. 7 billion last year and total export financing stood at Rs. 658 billion. The negative growth of private-sector borrowing can be attributed to the slowdown in economic activity from elections and the high cost of borrowing.

Manufacturing Sector

The large-scale manufacturing sector (LSM) continues to face challenges amid weak economic fundamentals and increasing business costs. The LSMI output decreased by 4.1 percent in February 2024 when compared with January 2024 and posted a growth of 0.06 percent when February 2023. In the first eight months of FY 2024, the manufacturing sector posted a decline of 0.5 percent when compared with the previous year. This implies that the manufacturing sector was unable to revive and economic hinderances continue to prevail.

In February 2024, the textile, coke and petroleum products posted a positive growth while food, chemicals, wearing apparel, and chemical sectors posted a negative growth.

There are multiple reasons behind slowdown in the manufacturing activities and the most prominent is rising costs. These costs comprise raw materials, energy, rising minimum wages, and shortage of capital due to exorbitant interest rates. Supply chain disruptions are also prevalent due to trade barriers and wars.

Monetary Sector

The policy rate has remained unchanged at 22 percent for the last several months. The Monetary Policy Committee envisages a positive real interest rate on a 12-month forward looking basis and expects a decline in inflation in the second half of FY2024. Although inflation remained higher than expected, a decrease was observed in February and March compared to January on a yearly basis. The ability of the interest rate to control inflation in Pakistan is limited as the government remained the primary borrower of capital from the banking sector and used the money to finance current expenditures. Therefore, the money supply continues to grow, aggregate demand cannot be restricted while the supply suffers due to the high cost of borrowing.

External Sector

The exports of Pakistan increased by 17 percent in the third quarter of FY 2024 compared to last year and stood at $7.93 billion. The exports in January, February, and March were $2.79 billion, $2.58 billion, and $2.85 billion respectively. The increase in exports can be attributed to ease in the restriction on imports, availability of raw materials, and stability in the exchange rate.

The imports of the country increased by 9 percent in the third quarter of FY 2024. The total imports stood at $13.82 billion in the third quarter. The imports in January, February, and March were $4.77 billion, $4.32 billion, and $4.72 billion respectively. The total trade deficit declined by 1 percent in the third quarter of FY 2024 compared to last year and stood at $5.89 billion.

Remittances play an important role in the managing inflow and outflow of foreign exchange and fulfilling the country's external obligations. The inflow of remittances increased by 18 percent in the third quarter of FY 2024 as compared to last year. Pakistan received remittances of $7.6 billion in the third quarter of FY 2024 as compared to an inflow of $6.4 billion last year.

The current account balance posted a deficit of $175 million in Jan-Feb FY24, compared to a deficit of $304 million in the same quarter last year. Despite low inflows and higher outflows for debt servicing, the current account was in surplus by $128 million in February compared to a deficit of $303 million in January. Nonetheless, the current account deficit for the first eight months (Jul-Feb) of the FY 2024 was reduced to $999 million, a 74 percent decrease from the $3.84 billion in the same time last fiscal year.

The exchange rate appreciated in the third quarter of FY 2024 by 2 percent from Rs. 283.6 at the end of December 2023 to Rs. 279 at the end of March 2024. The appreciation in the value of the rupee resulted from the continuity of IMF -SBA, crackdown on smuggling of foreign exchange, policy revision of currency exchange companies, and improvement in the political environment of the country.

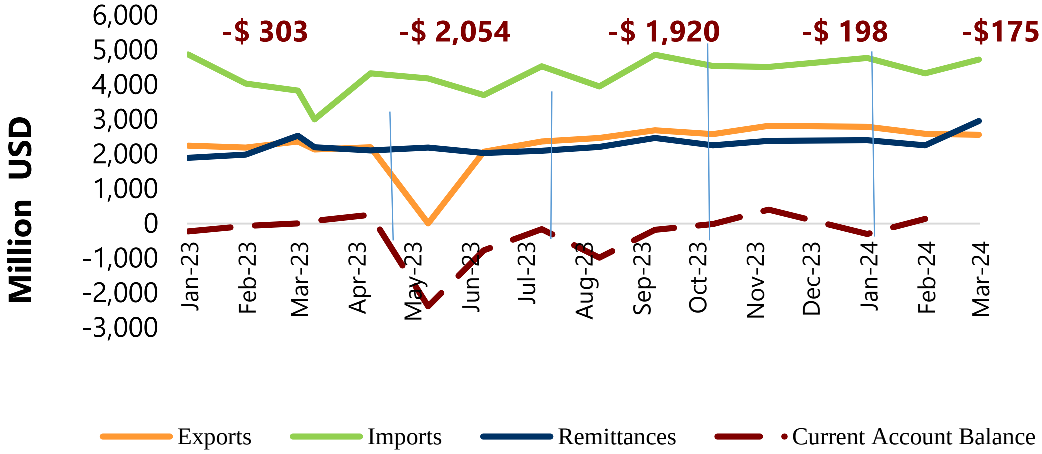
The foreign exchange reserves of the government declined by 2.2 percent i.e., $181 million in the third quarter of FY 2024 from $8.22 billion at the end of December 2023 to $8.04 billion at the end of March 2024. The fall in reserves can be attributed to the debt servicing.

Business Environment

The business environment of a country can be illustrated by the performance of the stock market. The KSE-100 Index stock position at the start of the third quarter was 64,661 and it increased to 67,005 at the end of March 2024, a growth of 7 percent in the third quarter of FY 2024. The market capitalization increased by 4.2 percent in the third quarter of FY 2024 from Rs. 9.0 trillion at the end of December 2023 to Rs. 9.44 trillion at the end of March 2024. The improvement in KSE-100 is attributed to factors such as the improvement in the current account balance, continuity of the IMF program, stability in the exchange rate, and political stability.

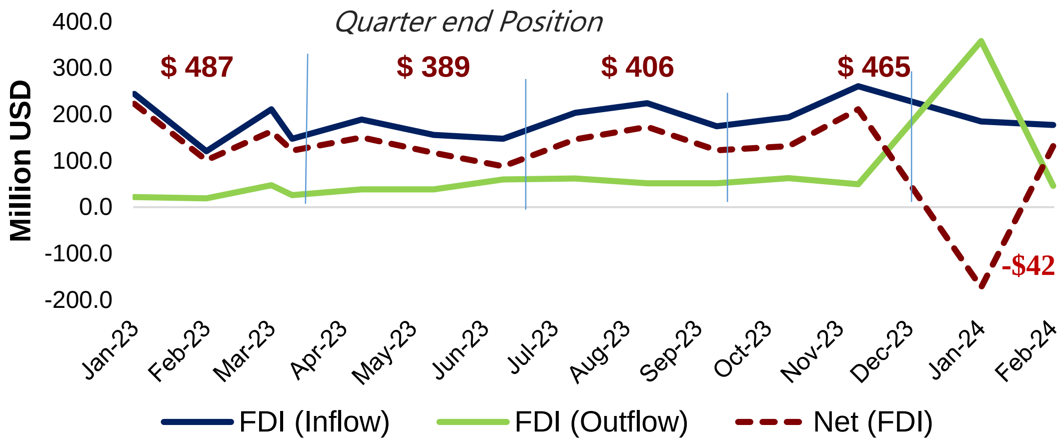
Macroeconomic Indicators

Figure 6: Current Account Balance
Quarter end Position



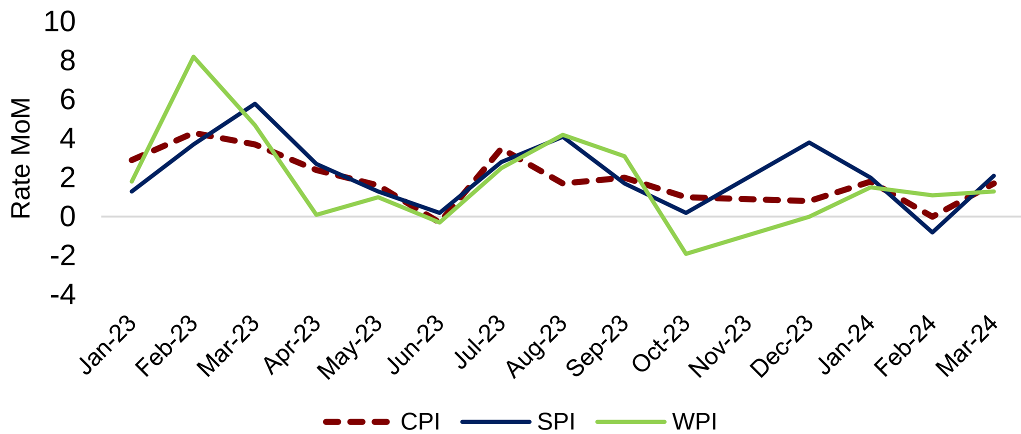
Source: Pakistan Bureau Statistics

Figure 7: Foreign Investment in Pakistan
Quarter end Position



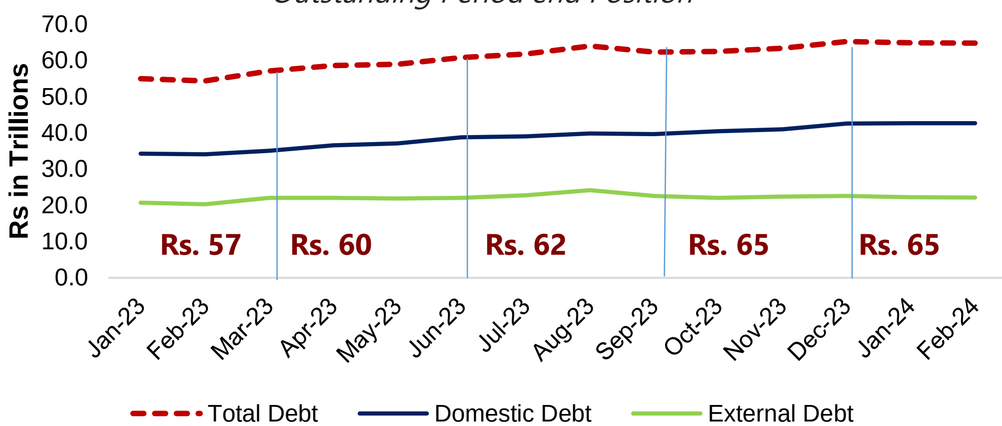
Source: State Bank of Pakistan

Figure 8: Inflation



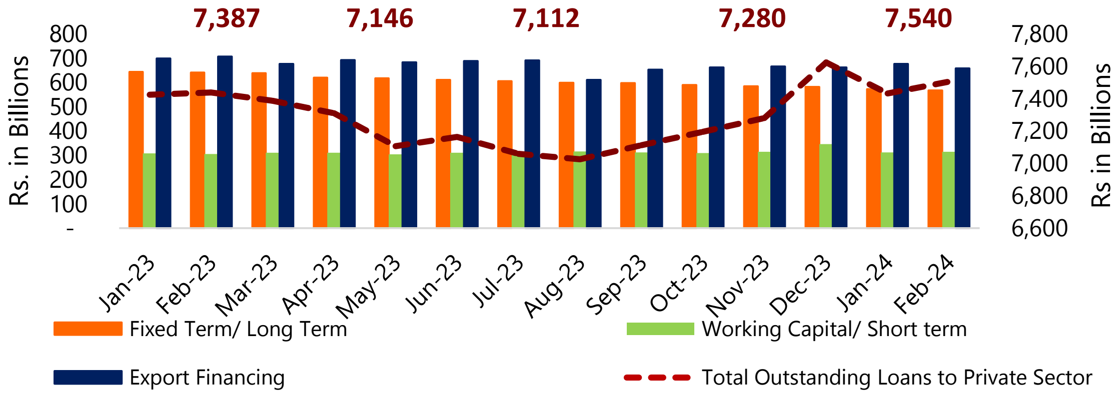
Source: Pakistan Bureau of Statistics

Figure 9: Public Debt of Pakistan
Outstanding Period end Position



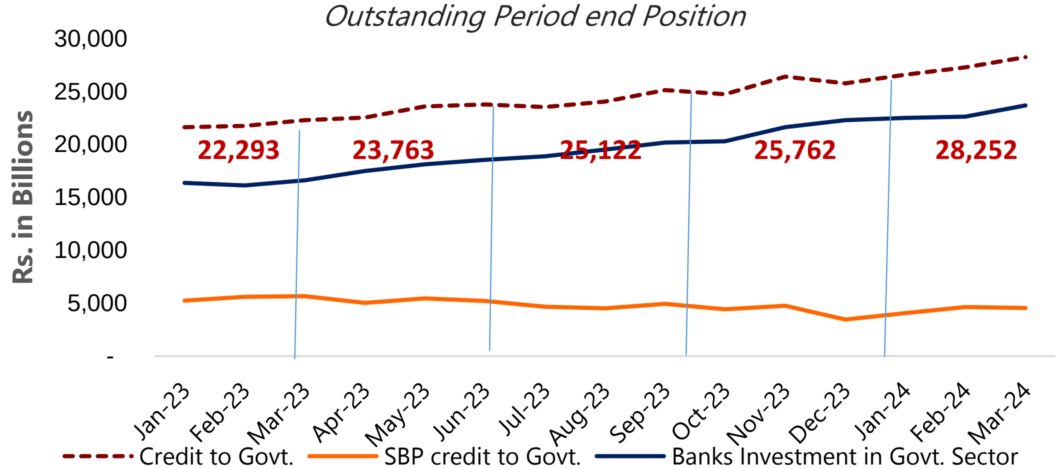
Source: State Bank of Pakistan

Figure 10: Private Sector Borrowing from Banks
Outstanding Period end Position



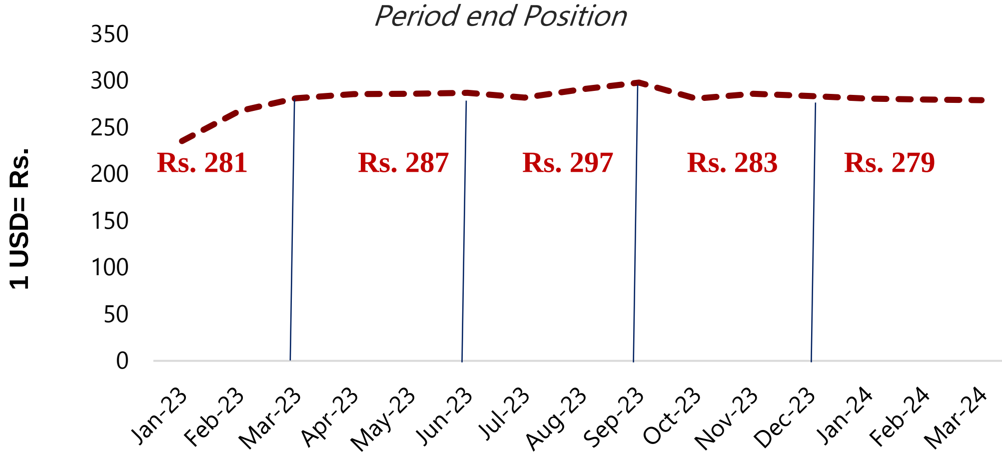
Source: State Bank of Pakistan

Figure 11: Government Domestic Borrowing
Outstanding Period end Position



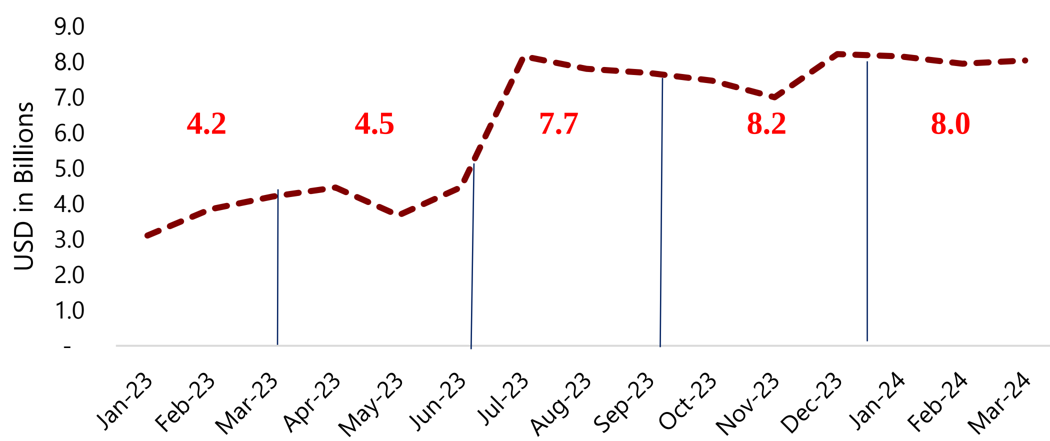
Source: State Bank of Pakistan

Figure 12: Exchange Rate Trend
Period end Position



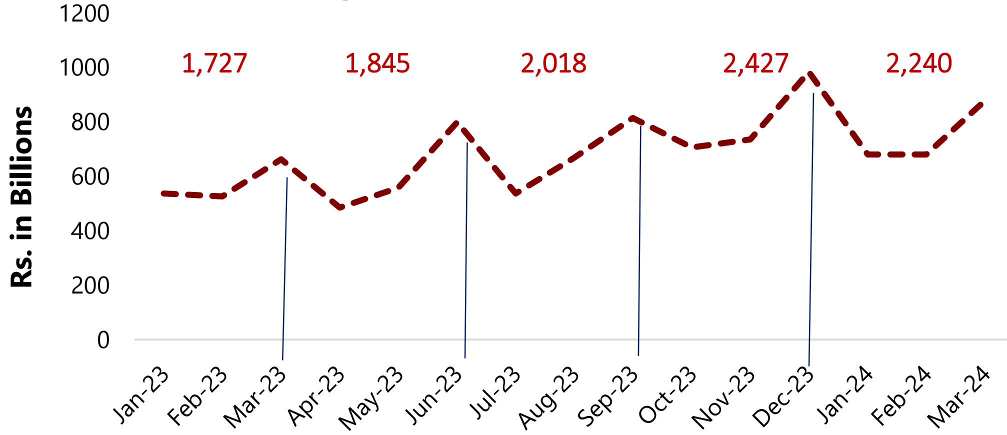
Source: State Bank of Pakistan

Figure 13: Foreign Exchange Reserves of Government
Outstanding Period end Position



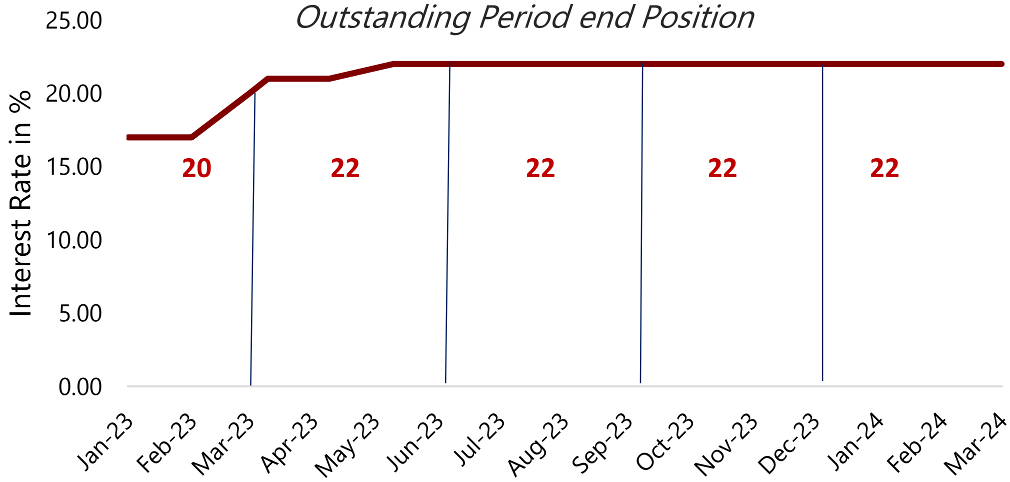
Source: State Bank of Pakistan

Figure 14: Revenue Collection
Quarter end Position



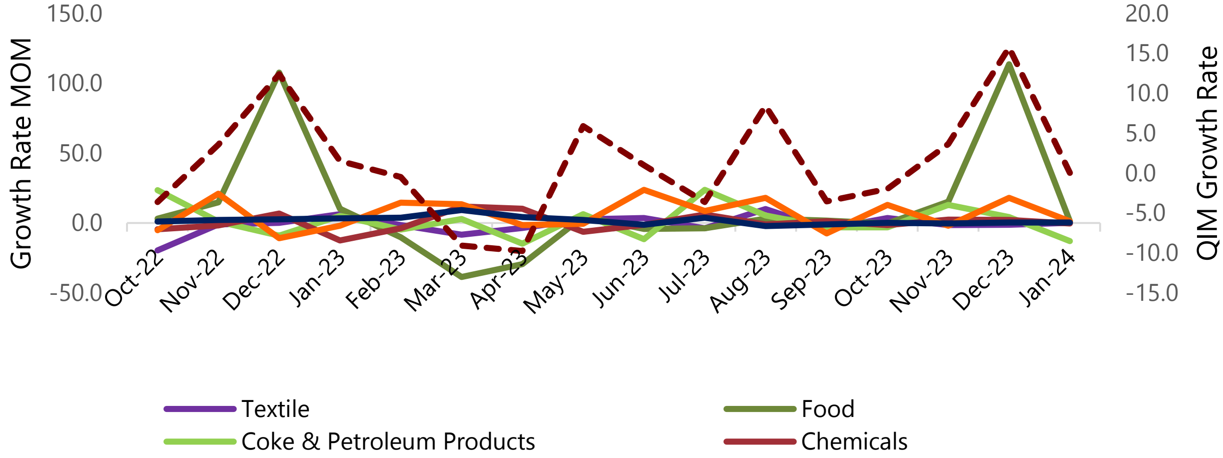
Source: Business Recorder

Figure 15: Policy Rate
Outstanding Period end Position



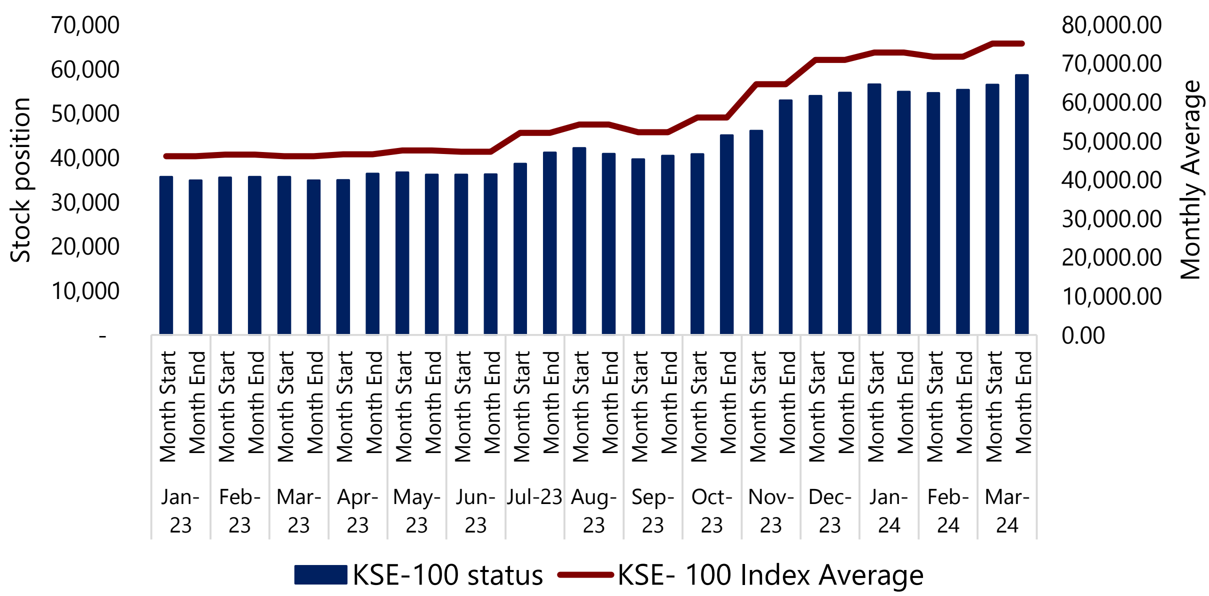
Source: State bank of Pakistan

Figure 16: Large Scale Manufacturing Sector Performance



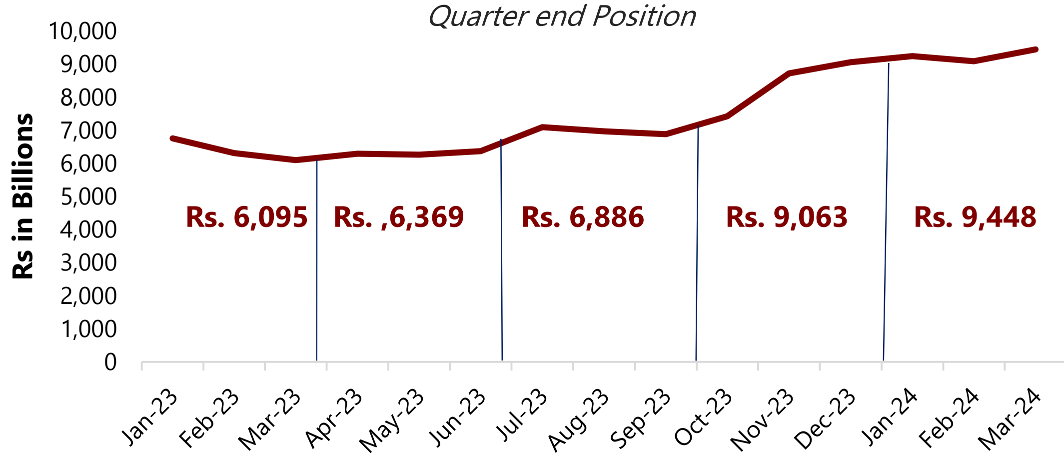
Source: Pakistan Bureau Statistics

Figure 17: Stock Market Performance



Source: Pakistan stock Exchange

Figure 18: Market Capitalization in Stock Market
Quarter end Position



Source: Business News, DAWN

SECTION THREE: MACROECONOMIC OUTLOOK

Macroeconomic Outlook

The global conflicts are expected to continue to mount and caution is crucial to promote peace and stability. The food and petroleum prices, although stable at the moment, might show volatility if there is an escalation in the war in the Middle East. The global community needs to intervene to stop the genocide in Palestine. The inflationary pressures have moderated owing to the tight monetary policy pursued in the past two years and are expected to come down further unless there is an escalation in the wars.

Pakistan has fared well in managing external financial obligations; however, external borrowing and rollover of debt remained the prominent policy tools. Due to high financial obligations, the economy will remain vulnerable to external shocks as the country's foreign exchange reserves are insufficient to cover the two months' import bill. The release of the last tranche of IMF-SBA will provide a cushion to the country's reserves while negotiations on the new IMF program will play a crucial role in setting the country's direction and promoting economic stability. It is pertinent to highlight that greater emphasis will be placed on structural reforms by the IMF.

On the domestic front, the smooth transition of the government has reduced political instability in the country. The incumbent government faces insurmountable challenges and might have to deal with public backlash if the government continues to raise utility prices without any sustainable reform. The security challenges have increased in the last couple of months and are expected to create instability in the country if concrete steps are not taken to ensure law and order in the country. It is also going to be difficult to realize the investments committed by the friendly countries if security risks are not addressed.

The energy sector continues to hold a prominent position in public discussions. The circular debt continues to grow and the government is still analyzing several policy prescriptions. The sustainability of the power and gas sectors is crucial for economic stability. The government needs to address the cross-subsidy issue to address the concerns highlighted by the industry and also take steps to overcome theft and losses. The price of utilities should be based on the cost but the government needs to minimize losses from theft and low recovery. However, in the short term, the burden of inefficiencies will be put on the public, and economic activity is expected to remain subdued.

Inflation is the most daunting challenge for the government as well as the public. Although there is a slight reduction in inflationary pressures, the prices remain elevated and people continue to experience a fall in their purchasing power. The monetary policy tools and administrative controls previously employed by the governments to control inflation have not accomplished the desired results. There is a crucial need to reduce public expenditures and increase government tax revenues by lowering tax rates and broadening the tax base, however, no significant attention is paid in this regard. The trade barriers put in place by the government have contributed significantly to lower domestic productivity and inflation. In the coming months, no significant improvement is expected in this domain. The government should focus on reducing supply-side bottlenecks by moving away from price controls and trade barriers to revive economic activity.

The government has passionately advocated for the privatization of loss-making enterprises and efforts are underway to divest PIA. In the coming months, the progress will be visible and the government might be able to privatize PIA given the foreign investors show willingness as they have shown previously.

ANNEXURE

Table 5: Current Account Indicators of Pakistan

Month	Exports	Imports	Remittances	Current Account Balance
	Million USD			
Jan-23	2,244	4,875	1,894	-230
Feb-23	2,191	4,034	1,988	-36
Mar-23	2,367	3,828	2,533	750
Apr-23	2,137	2,997	2,198	78
May-23	2,200	4,328	2,103	255
Jun-23	2,366	4,180	2,184	-2387
July-23	2,068	3,705	2,029	-775
Aug-23	2,366	4,528	2,093	-160
Sep-23	2,465	3,954	2,206	-985
Oct-23	2,690	4,864	2,463	-184
Nov-23	2,573	4,539	2,250	-15
Dec-23	2,812	4,514	2,381	397
Jan -24	2,792	4,771	2,398	-303
Feb-24	2,583	4,326	2,250	128
Mar-24	2,555	4,726	2,953	

Table 6: Foreign Direct Investment in Pakistan

Month	Net	Inflow	Outflow
	Million USD		
Jan-23	222.6	244.3	21.6
Feb-23	100.9	120.2	19.3
Mar-23	163.4	210.7	47.3
Apr-23	121.6	147.3	25.6
May-23	149.6	178.0	28.4
Jun-23	114.3	141.4	27.1
July-23	87.7	147.7	60.0
Aug-23	146.1	197.6	51.5
Sep-23	172.6	223.8	51.2
Oct-23	122.5	174.2	51.7
Nov-23	131.4	193.5	62.2
Dec-23	211.1	260.6	49.5
Jan-24	-173.2	184.7	357.9
Feb-24	131.2	177.3	46.1

Table 7: Inflation

Month	CPI	SPI	WPI
Jan-23	2.9	1.3	1.8
Feb-23	4.3	3.7	8.2
Mar-23	3.7	5.8	4.7
Apr-23	2.4	2.7	0.1
May-23	1.6	1.3	1.0
Jun-23	-0.3	0.2	-0.3
Jul-23	3.5	2.8	2.5
Aug-23	1.7	4.1	4.2
Sep-23	2.0	1.7	3.1
Oct-23	1.0	0.2	-1.9
Nov-23	2.7	3.3	1.4
Dec-23	0.8	3.8	0.0
Jan-24	1.8	2.0	1.5
Feb-24	0.0	-0.8	1.1
Mar-24	1.7	2.1	1.3

Table 8: Public Debt of Pakistan

Month	Public Debt	Domestic Debt	External Debt
	Rs. in Trillions		
Jan-23	54.9	34.3	20.7
Feb-23	54.3	34.0	20.2
Mar-23	57.1	35.1	22.0
Apr-23	58.6	36.5	22.0
May-23	59.0	37.1	21.9
Jun-23	60.8	38.8	22.0
July-23	61.7	39.0	22.7
Aug-23	64.0	39.8	24.2
Sep-23	62.3	39.7	22.6
Oct-23	62.5	40.4	22.1
Nov-23	63.4	41.0	22.4
Dec-23	65.2	42.5	22.6
Jan-24	64.8	42.6	22.2
Feb-24	64.8	42.7	22.1

Table 9: Domestic Borrowing of Government

Month	Total Credit	SBP Credit to Government	Banks Credit to Government
	Rs. in Trillions		
Jan-23	21,633	5,260	16,373
Feb-23	21,731	5,597	16,134
Mar-23	22,293	5,670	16,622
Apr-23	22,516	5,033	17,483
May-23	23,582	5,454	18,127
Jun-23	23,763	5,222	18,541
Jul-23	23,531	4,663	18,868
Aug-23	24,031	4,533	19,498
Sep-23	25,122	4,944	20,178
Oct-23	24,723	4,427	20,297
Nov-23	26,391	4,764	21,628
Dec-23	25,762	3,481	22,281
Jan-24	26,570	4,068	22,501
Feb24	27,275	4,646	22,629
Mar-24	28,252	4,566	23,686

Table 10: Private Sector Borrowing (Rs. in Billions)

Month	Total loans to Private Sector	Fixed-Term/ Long Term	Working Capital/ Short term	Export Financing
Jan-23	7,424	643	308	699
Feb-23	7,439	641	305	706
Mar-23	7,387	638	311	676
Apr-23	7,311	621	311	693
May-23	7,106	617	304	683
Jun-23	7,164	611	311	688
Jul-23	7,060	606	310	691
Aug	7,026	598	315	611
Sep-23	7,112	597	313	653
Oct-23	7,195	590	310	662
Nov-23	7,280	585	315	666
Dec-23	7,624	582	346	662
Jan-24	7,431	573	313	676
Feb-24	7,504	567	315	658

Table 11: Exchange Rate and SBP Reserves

Month	Policy Rate	Exchange Rate	SBP Reserves (USD Billions)
Jan-23	17.00	235.2	3.1
Feb-23	17.00	267.2	3.9
Mar-23	20.00	281.0	4.2
Apr-23	21.00	285.4	4.5
May-23	21.00	286.0	3.7
Jun-23	22.00	287.0	4.5
Jul-23	22.00	281.7	8.2
Aug-23	22.00	290.8	7.8
Sep-23	22.00	297.9	7.7
Oct-23	22.00	280.8	7.5
Nov-23	22.00	286.0	7.0
Dec-23	22.00	283.6	8.2
Jan-24	22.00	280.7	8.2
Feb-24	22.00	279.6	8.0
Mar-24	22.00	279.0	8.0

Table 12: Performance of Stock Market

Month	KSE-100 Index Status		Monthly Average	Market Capitalization (Rs. in Billions)
	Month Start	Month End		
Jan-23	40,815	39,871	40,344	6,757
Feb-23	40,619	40,784	40,702	6,317
Mar-23	40,815	39,848	40,332	6,095
Apr-23	40,000	41,580	40,791	6,289
May-23	41,927	41,340	41,634	6,265
Jun-23	41,330	41,452	41,391	6,369
Jul-23	44,207	47,077	45,642	7,099
Aug-23	48,230	46,770	47,500	6,972
Sep-23	45,312	46,232	45,773	6,886
Oct-23	46,627	51,482	49,054	7,423
Nov-23	52,656	60,502	56.579	8,718
Dec-23	61,691	62,451	62,071	9,063
Jan-24	64,661	62,773	63,717	9,243
Feb-24	62,393	63,219	62,806	9,089
Mar-24	64,578	65,005	65,791	9,448

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