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PAKISTAN ECONOMY 2017 -18

TOPSY TURVY

MISE-EN-SCÈNE

https://goo.gl/LFiWyx

https://goo.gl/QDM4ZM

ADDRESS

408, 4th Floor, Continental Trade Centre,
Clifton Block-8, Karachi

Email: connect@tolaassociates.com Ph# 35303294-6

Website: www.tolaassociates.com

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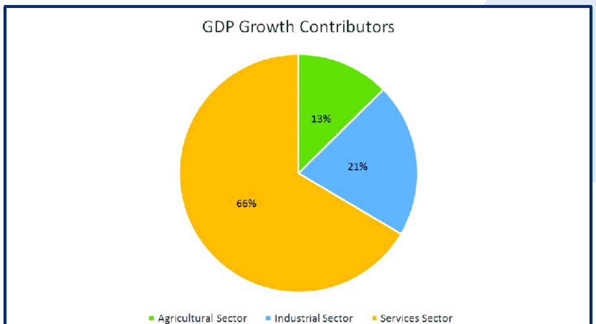
Pakistan Economy 2017 -18 - Topsy Turvy Mise-en-Scène

Preamble:

Economy of Pakistan is facing a bumpy ride these days. From lows of 2012 to record breaking performance graduated over last five years, it is under pressure again chiefly due to widening trade deficit owing to huge import bills, resulting mounting of current account deficit ("CAD") and devaluation of Pak Rupee.

The provisional GDP for the year 2017-18 has been estimated at 5.79 percent as compared to 5.36% (revised) during 2016-17. The growth of the agricultural, industrial and services sector is 3.81%, 5.80% and 6.43% respectively. The growth in GDP is majorly contributed by service sector (3.85%) followed by Industrial and agricultural sector (1.21% and 0.73% respectively). *(Source: PBS)*



The sectors are further discussed below briefly:

1. Agricultural Sector:

Theagricultural sector grew by 3.81%. The growth of crops during this year, is 3.83%. The growth in production of three important crops namely rice, sugarcane and cotton is estimated at 8.7%, 7.4%, and 11.8% respectively, while adecline in production has been estimated in Wheat and Maize at 4.4% and 7.1% respectively. Whereas, livestock sector registered a growth of 3.76%.

Livestock, forestry and fishing has also contributed to GDP growth and grew by 3.76%, 7.17% and 1.63% respectively. *(Source: PBS)*

2. Industrial Sector:

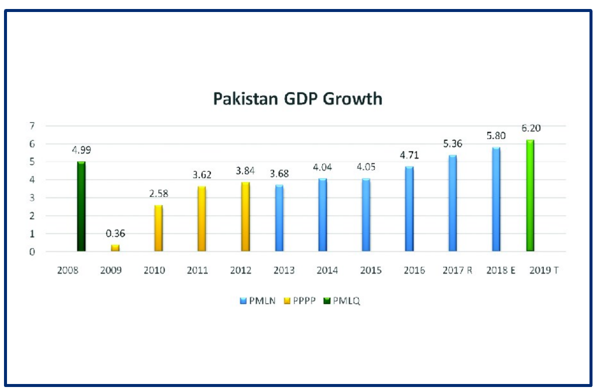
The overall industrial sector showed an increase of 5.80 provisionally. The mining and quarrying sector grew by 3.04%. The large scale manufacturing sector showed an increase of 6.24%. Major contributors to this growth were cement (12%), tractors (44.7%), trucks (24.41%) and petroleum products (10.26%). Electricity and gas sub sector showed growth of 1.84% while the construction activity increased by 9.13%. *(Source: PBS)*

3. Services Sector:

The services sector showed a growth of 6.43%. Wholesale and retail trade sector grew at a rate of 7.51% which is dependent on the output of agriculture and manufacturing and imports. Agriculture increased by 3.81%, Manufacturing increased by 5.80% and imports increased by 17%. Transport, storage and communication sector grew at a rate of 3.58%. Finance and insurance sector showed an overall increase of 6.13%, General government services grew by 11.42%. It is mainly driven by the increase in salaries and the inflation. Other private services also contributed positively. *(Source: PBS)*

4. Historical GDP growth rates:

Pakistan has been successful in achieving consistently increasing growth rates during last six fiscal years.



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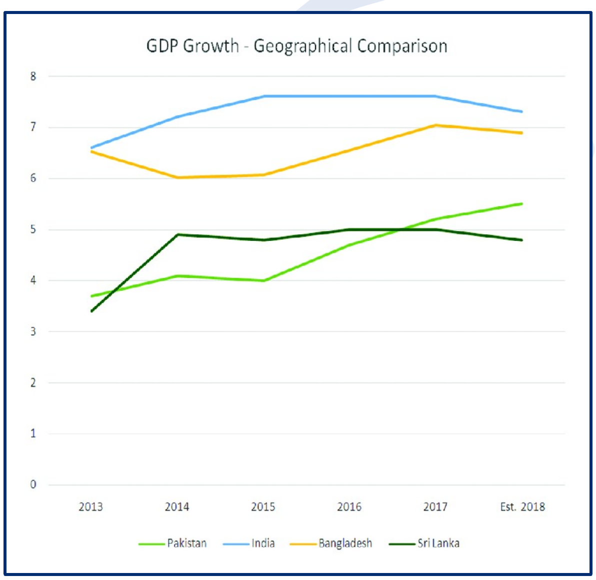
5. GDP - A Geographical Comparison:

A comparison of growth with other countries of region shows Pakistan's growth has been consistent as compared to India and Sri Lanka. The GDP growth of India has been stagnant for last three years, whereas, Pakistan' GDP growth has shown improvements. *(www.data.worldbank.org)*

	Pakistan	India	Bangladesh	Sri Lanka
2013	3.70	6.60	6.50	3.40
2014	4.10	7.20	6.00	4.90
2015	4.00	7.60	6.10	4.80
2016	4.70	7.60	6.60	5.00
2017	5.20	7.60	7.10	5.00
Est. 2018	5.50	7.30	6.90	4.80
GDP Size ($ in Billion) (2017)	303	2457	246	88
Tax To GDP ratio (2013)	11.18	10.99	8.96	10.49

(www.data.worldbank.org)

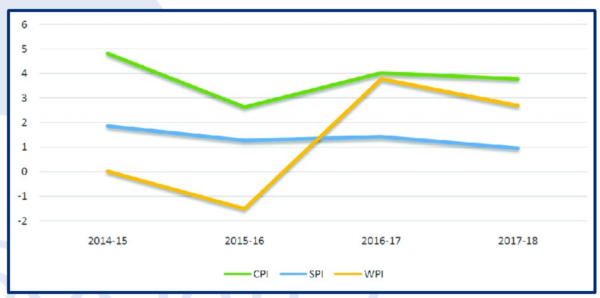


(www.data.worldbank.org)

6. Inflation:

Average inflation for 2017-18, targeted at 6 percent, was contained at 3.8 percent for July-March 2017-18 compared to 4 percent in July-March 2016-17. Average SPI was also lower in July-March 2017-18, at 0.9 percent as against 1.4 percent in July-March 2016-17. Similarly, average WPI stood at 2.7 percent in the same period compared to 3.8 percent last year.

	2014-15	2015-16	2016-17	2017-18
CPI	4.81	2.64	4.01	3.78
SPI	1.86	1.27	1.42	0.96
WPI	0.03	-1.5	3.79	2.7



(Source: PBS)

7. GDP at Current Market Prices:

GDP at current market prices has also been computed and stands at Rs. 34,396 billion for 2017-18. This shows a growth of 7.6% over Rs. 31,963 billion for 2016-17. The per capita income is calculated to be Rs. 180,204 for 2017-18. Whereas, per per capita income during 2016-17 wasRs. 162,230 based on provisional figures of Population Census 2017 held in March 2017. The revised series of per capita income will be compiled after finalization of 6th Housing and Population Census result.

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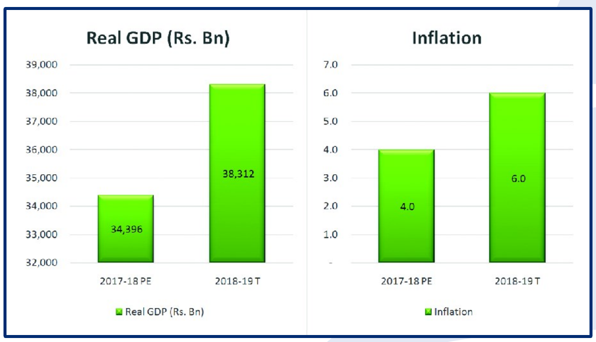
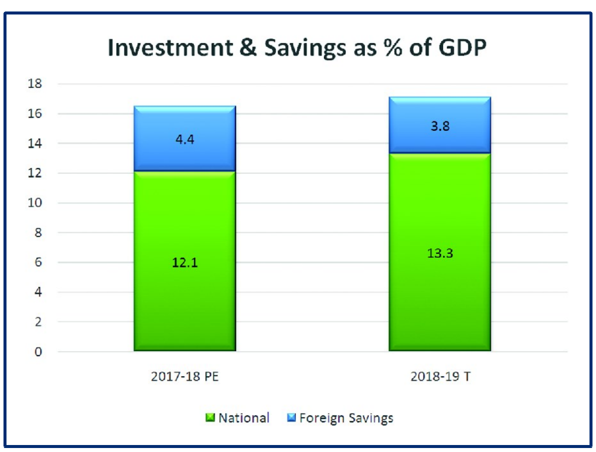
	2017-18 Provisional Estimates	2018-19 Target
GDP (mp) Rs Billion	34,396	38,312
Inflation (in %)	4.00	6.00
Investment and Savings (% of GDP)		
Total Investment	16.40	17.20
National Savings	12.10	13.30
Foreign Savings (External Resource)	4.40	3.80

(Source: PBS)



Investments are targeted to grow at 4.8% uptoRs. 17.2 billion from current estimate of Rs. 16.4 billion. The target investments would contribute by National Savings (Rs. 13.3 billion) and Foreign Savings (Rs. 3.8 billion)

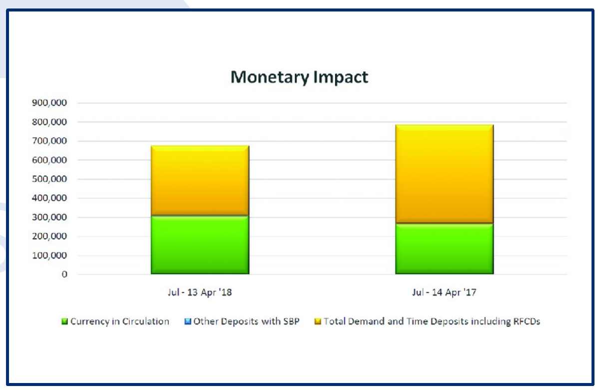


8. Broad Money (M2):

	Stocks at end June 2017	Flows FY16	Flows FY17	Monetary Impact since 1st July to	
				13-04-2018	14-04-2017
	(Rs. In Million)				
Currency in Circulation		779,035	577,531	307,558	265,418
Other Deposits with SBP	3,911,315	5,009	3,936	129	1,436
Total Demand and Time Deposits including RFCDs	22,692	758,665	1,174,562	365,508	517,110
Broad Money (M2)	10,646,875	1,542,708	1,756,029	673,195	783,964
Growth	14,580,882	13.67%	13.69%	4.62%	6.11%

(Source: SBP)

Money supply, during 1st July, 2017 to 13th April, 2018, increased by Rs. 673,195 million (4.62%), which stood at Rs. 14,580,882 million at 30thJune, 2017. During similar previous periods, money supply increased by Rs. 783,964 (6.11%).



(Source: SBP)

9. Net Government Sector borrowing

Net Government Borrowing was Rs. 784 billion during July 2017 to 13th April, 2018, which was Rs. 650 billion for the similar previous periods. The Government borrowings were majorly utilized to support budgetary deficit (Rs. 839 billion). The support for budgetary deficit was also contributed from commodity operations (Rs. 59 billion).

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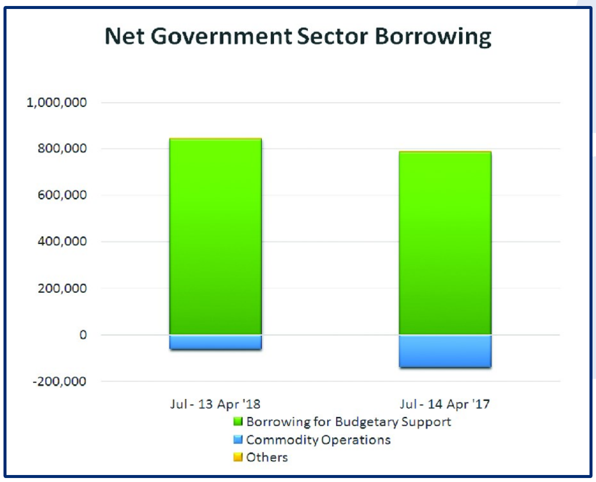
	July to 13th April 2018	July to 14th April 2017
	(Rs. In Million)	
Borrowing for Budgetary Support *	839,541	785,537
Commodity Operations	(59,538)	(138,028)
Others	4,365	2,660
Net Government Sector Borrowing	784,367	650,169

**Budgetary borrowings on cash basis is Rs. 883,871 million and Rs. 764,039 million for periods July to April 2018 and 2017 respectively.*

(Source: SBP)

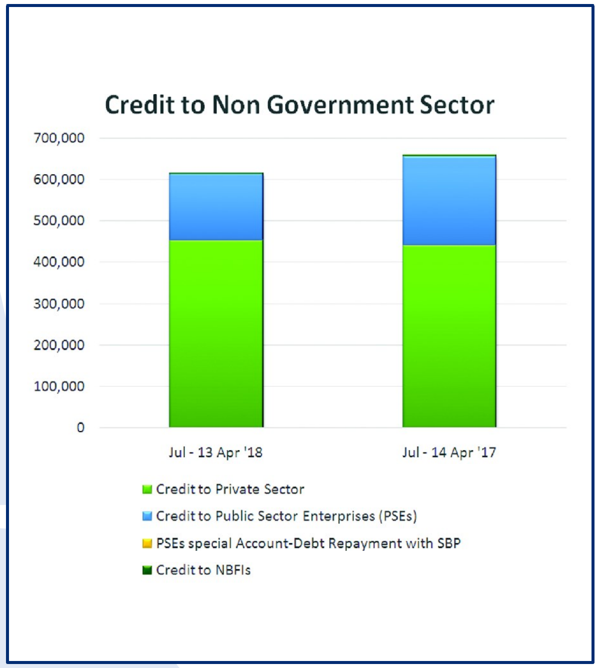


10. Credit to Non Government Sector

Credit to non government sector during 1st July, 2017 to 13th April, 2018 was lower at Rs. 516,729 million in comparison with similar periods of previous year (Rs. 660,996 million). Rs. 454 million was credited to Private sector while Rs. 161 million were credited to public sector enterprises.

	July to 13th April 2018	July to 14th April 2017
	(Rs. In Million)	
Credit to Private Sector	453,991	440,939
Credit to Public Sector Enterprises (PSEs)	160,829	216,490
PSEs special Account-Debt Repayment with SBP	0	0
Credit to NBFIs	908	3,567
Credit to Non-Government Sector	516,729	660,996

(Source: SBP)



(Source: SBP)

11. Foreign Exchange Reserves

Foreign exchange reserves, as on 13thApril, 2018 were down to $ 17.5 billion (18.6%) as compared to last years' (end of March 2017) $ 21.6 billion. However, private banking reserves seen a rise of 20.6% from last year, whereas, government reserves were 30.9% lower.

	13th April 2018	March 2017
	(Rs. In Million)	
Government Reserves	11,380	16,466
Private Banking reserves	6,166	5,106
Total	17,546	21,572

(Source: SBP)

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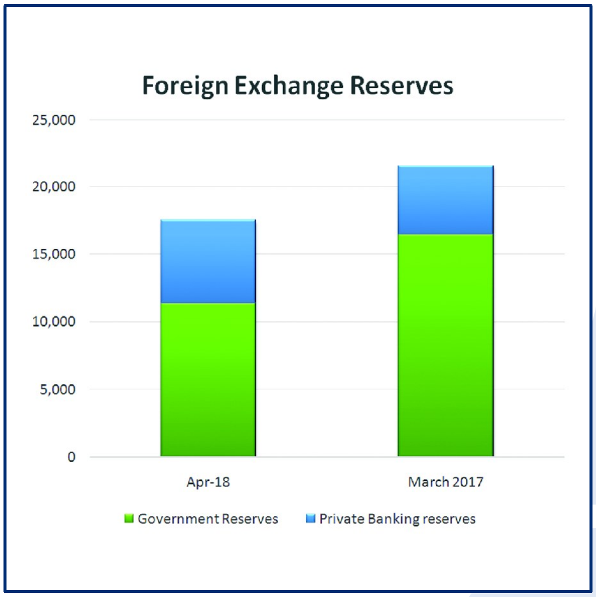
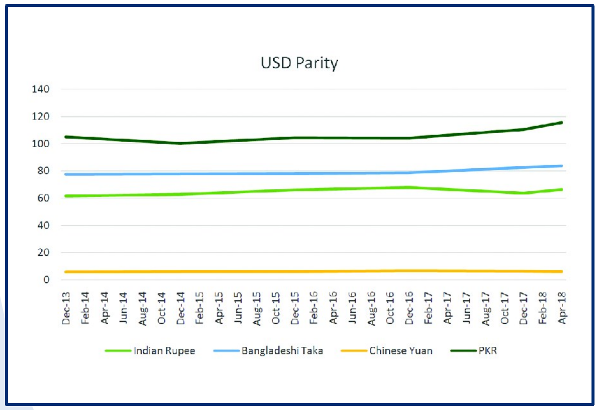


(Source: SBP)

12. Regional Currency Comparison

USD parity with Pakistani Rupee took a hike of 10.8% and 4.5% as compared to its values in December 2016 and December 2017, respectively. USD parity with PKR remained bit consistent during past years with the exception of recent devaluation during December 2017.

USD Parity with				
As on	PKR	Chinese Yuan	Bangladeshi Taka	Indian Rupee
Apr-18	115.65	6.31	83.78	66.39
Dec-17	110.70	6.51	82.69	63.87
Dec-16	104.40	6.95	78.92	67.92
Dec-15	104.75	6.49	78.25	66.15
Dec-14	100.55	6.21	77.93	63.04
Dec-13	105.40	6.05	77.67	61.80



(Source: SBP)

13. Balance of Payments:

The current account deficit for July-February 2017-18 stood at $10.8 billion compared to $ 7.2 billion in July-February 2016-17 indicating deterioration in current account deficit which stood at 4.8 percent of GDP compared to 3.6 percent last year. Trade deficit during the first eight months of 2017-18 stood at $19.7 billion with exports of $15.9 billion and imports of $35.6 billion. During July-February 2017-18, exports increased by 12.2 percent compared to a decline of 0.8 percent in July-February 2016-17, whereas, imports increased by 17.3 percent compared to an increase of 12.5 percent on comparable period of 2016-17.

	2017-18 Provisional Estimates	2018-19 Target
	(Rs. In Million)	
Exports	24.50	27.30
Imports	53.10	56.50
Trade Balance	28.60	29.20
Current Account Deficit (CAD)	13.70	12.50
CAD % of GDP	4.40	3.80

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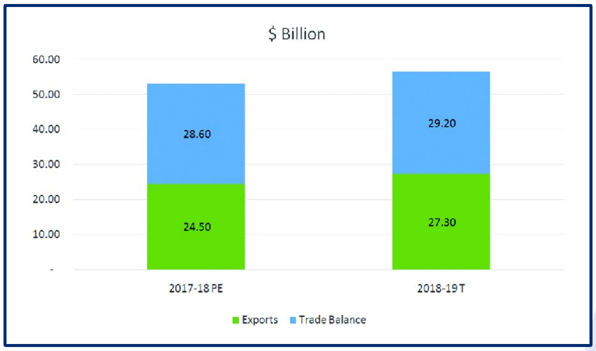

14. Workers' remittances amounted to $14.6 billion in July-March 2017-18 compared with US$ 14.1 billion during same period last year registering an increase of 3.5 percent. The total liquid foreign exchange reserves stood at $ 17.8 billion on 30th March 2018.

15. Budget Spending

Expenditure (Rs.bn)	Budget	Revised	Budget	Forcasts	
	2017-18	2017-18	2018-19	2019-20	2020-21
Total	**4,753**	**4,833**	**5,237**	**5,610**	**6,178**
Utilized in:					
Markup	1,364	1,436	1,607	1,767	1,998
Defense	920	998	1,100	1,210	1,333
Pensions	248	320	342	394	421
Running of civil government	377	426	445	484	527
Pay and Pension Increase		0	36	0	0

Expenditure (Rs.bn)	Budget	Revised	Budget	Forcasts	
	2017-18	2017-18	2018-19	2019-20	2020-21
Grants to Provinces	**26**	**28**	**28**	**34**	**37**
Grants - Other	550	588	624	632	729
PSDP	1,001	750	800	850	900
Net Lending	123	123	76	58	58

(Source: MOF Budget Strategy Paper)

16. Key Indicators

	Actual (p)	Revised	Budget	Targets	
	2016-17	2017-18	2018-19	2019-20	2020-21
GDP - % change	5.40	5.80	6.25	6.50	7.00
Inflation - % change	4.20	4.50	6.00	6.00	6.00
	% of GDP				
Tax Revenue 12.40	12.40	13.20	13.60	13.80	13.90
Budget Deficit -5.80	-5.80	-5.50	-5.30	-5.00	-4.90
Gross Public Debt 67.00	67.00	70.10	67.60	65.20	62.50
Net Public Debt 61.40	61.40	64.90	63.10	61.20	59.00
Current Account Deficit	-4.10	-5.00	-4.10	-3.40	-3.10

(Source: MOF Budget Strategy Paper)

17. Outlook for 2018-19

Economic growth prospects are positive for 2018-19 on accounts of strong expected performance of agriculture, steady growth in industrial sector emanating from acceleration in large scale manufacturing and improved energy supply. Inflation, though slightly picking up, is expected to remain below 6 percent for the next year. However, high fiscal and current account deficits in 2017-18 may pose a challenge on external front.

Annual Plan 2018-19 envisages overall macroeconomic stability in view of encouraging agriculture performance and steady industrial growth. The GDP growth for 2018-19 is targeted at 6.2 percent with contributions from agriculture (3.8 percent), industry (7.6 percent) and services (6.5 percent). The growth targets are subject to favourable weather conditions, current account deficit management, consistent economic policies and aligned monetary and fiscal policies.

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i. **Agriculture Sector:** The agriculture sector is targeted to grow by 3.8 percent on the basis of expected contributions from important crops (3 percent), other crops (3.5 percent), cotton ginned (8.9 percent), livestock (3.8 percent), fishery (1.8 percent) and forestry (8.5 percent). Higher production of cotton crop is expected during 2018-19 given better performance of cotton crop in 2017-18 and increasing trend in cotton prices. The growth prospects for livestock, fishery and minor crops are also bright.

ii. **Industrial Sector:** In view of steady growth rate during the current fiscal year, the industrial sector is expected to grow by 7.6 percent during 2018-19 on the back of better energy supply and planned investment under CPEC. The mining & quarrying sector is projected to grow by 3.6 percent, manufacturing sector by 7.8 percent, large scale Manufacturing by 8.1 percent, construction by 10 percent and electricity generation& distribution and gas distribution by 7.5 percent. Moreover, the increase in consumer demand is expected to further spur private sector activities and help maintain aggregate demand.

iii. **Services Sector** is targeted to grow by 6.5 percent in 2018-19, supported by growth of 7.8 percent in wholesale & retail trade, 4.9 percent in transport, storage & communication, 7.5 percent in finance & insurance, 4 percent in housing, 7.2 percent in general government services and 6.8 pecent in other private services. The expected higher growth in commodity producing sectors will support the targeted growth in Services Sector.

Target Sector	2017-18 Provisional Estimates	2018-19 Target
GDP	5.80	6.20
Agriculture	3.80	3.80
Important Crops	3.60	3.00
Livestock	3.80	3.80
Industry	5.80	7.60
Manufacturing	6.20	7.80
LSM	6.10	8.10
Services	6.40	6.50

(Source: Ministry of Planning)

iv. **Fiscal Policy:** Fiscal Policy during 2018-19 envisages containment of fiscal deficit, mobilizing more revenues, controlling current spending and switching to targeted subsidies while prioritizing development spending.

v. **Monetary Policy:** the expansionary monetary policy has generated economic activity in private sector. There are signs of improvement in large scale manufacturing with expansion plans announced by major industries. Thus, momentum in the demand for credit is expected to pick up pace.

vi. **Inflation:** Average inflation during 2018-19 is projected at 6 percent on the basis of rising commodity prices in the international markets.

vii. **Balance of Payments:** Resurgence of global commodity prices in 2018-19 is positive signal for exporters. Concerted efforts are required to enhance quality of exportable, diversify product range and look for new markets. Trade deficit is projected to be at $29.2 billion.

viii. CPEC Impact on Socio Economic Conditions

• The success of China Pakistan Economic Corridor ("CPEC"), will have three major benefits, i.e. Resolution of Energy Crisis, Development of Infrastructure and Regional Connectivity. Energy Crisis resolution and Infrastructural Development is expected to contribute to incremental growth in GDP of 2% and 1.5%, respectively, i.e. a combined additional growth of 3.5%, which, after accounting for existing growth rate, will expectedly result in GDP growth of 9.5%.

• Regional connectivity will improve the ease of doing business which will in turn improve the business competitiveness. This will stimulate inflow of and growth in investment. Major sectors to have positive investment growth are construction, cement, energy, real estate, logistics, transportation, banking and finance, auto and allied services, technical and vocational education, health and pharmaceutical, chemical, security services, airline industry, shipping industry, telecommunication, and engineering.

• The above benefits will also additionally contribute to reduction in Unemployment, which will have a further positive impact on GDP growth.

ix. Rising CAD

With CPEC investments and better performance in industrial sector exports are expected to gain momentum. Exports for 2018-19 are thus projected to grow by 11.6 percent while imports are projected to increase by 6.3 percent. The current account is projected to be in deficit by $12.5 billion in 2018.19 (3.8 percent of GDP)

x. Amnesty Scheme

Recently introduced amnesty scheme is expected to contribute positively to the economy in terms of influx of undeclared assets into the economy. However, the scheme is not expected to contribute more than Rs. 2 billion is current rates are prevailed. Whereas, if Rs. 150 billion ($ 100 billion foreign, $ 50 billion local) of undeclared assets are declared (and not repatriated), only Rs. 6 billion are expected to be generated at average rate of 4%. However, in longer run, the scheme may contribute positively in documenting the economy especially from real estate perspective.

xi. Currency Devaluation

Recent currency devaluation in during December 2017 has had a negative impact on economy and is likely to further pull down the economy in future. The devaluation has resulted in higher inflation, higher markup rates and increased debts. The potential 10% benefit in increased export revenues is also offset by increased import bills upto 7% and remaining 3% would also offset due to discounted price adjustments demanded by foreign buyers. Debt and foreign liabilities of $ 70 billion and $ 89 billion, respectively, would also increase by 11% in rupee terms.

	November 2017	December 2017	January 2018	February 2018	March 2018
CPI - YoY change	3.97	4.57	4.42	3.80	3.25
KIBOR - 3 months	6.16	6.16	6.37	6.38	6.50
T Bills - 3 months	5.99	6.01	6.24	6.22	6.64

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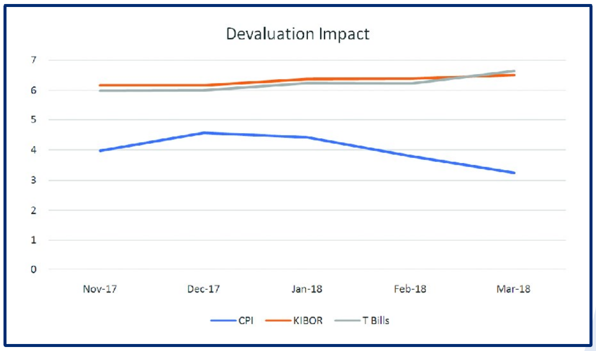

Tax revenues are expected to increase by 1 to 1.5 billion dollars due to increased duties and taxes based on inflated import values.

We expect that due to positive CPEC developments and recent amnesty scheme coupled with reforms in immovable property revaluations, Pakistan can see amagical GDP growth of double digits within three years provided political stability prevails.