TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

PAKISTAN ECONOMIC OVERVIEW 2020-21

(FLYING WITH BROKEN WINGS)

THURSDAY, JUNE 10TH 2021

408, CONTINENTAL TRADE CENTRE, BLOCK-8, CLIFTON, KARACHI

Pakistan Economy 2020-21

FOCAL POINTS

- Pakistan's provisional GDP growth has stood at 3.94% in 2020-21 vs. target of 2.1% of Planning Commission 2020-21.
- The GDP growth for 2019-20 has also been revised down to negative 0.47% vs. provisional figures of negative 0.38%.
- The National Economic Council (NEC) approves the economic growth target of 4.8% for coming fiscal year 2021-22.
- Country's important crops particularly wheat, rice, and maize and livestock sector, drove the overall growth of the agriculture sector, which grew by 2.77% in 2020-21.
- The country's industrial sector has also registered a positive growth of 3.57% in 2020-21 due to an exceptional growth in Manufacturer sector.
- Services sector remained a major growth driver for many years and this year it witnessed a growth of 4.43% in the provisional estimates, that shrinked to a negative 0.55% a year ago.
- Pakistan's overseas workers remittances appreciated by 29% which stood at an unprecedented level of $24.2 billion during July-April 2020-21 vs. $18.7 billion last year.
- The State Bank of Pakistan's ("SBP") reserves stand at $16.13 billion as of 28th May 2021.
- Pakistan's current account deficit dropped by 116.6% to a surplus of $773 million during July-Apr FY21 vs. last year.
- Overall exports increased by 14% to $22.56 billion during July-May 2020-21 vs $19.79 billion last year.
- Pakistan's debt and liabilities appreciated by 6.2% to Rs. 45,470 billion till Mar 2020 vs Rs. 42,805 billion last year.
- Currency in circulation of country appreciated by Rs. 571 billion since 29th May 2020 till 28th May 2021.
- Pakistan total external debt and liabilities depreciated by 3% and stood at $115 billion till Mar 2021 vs $118 billion last year.
- FBR's tax collection stood at Rs.4,170 billion during July-May 2020-21 vs Rs.3549 billion last year.

ECONOMY AT A GLANCE:

Sector	GDP Growth	Growth At Const. Price 2005-06
Agriculture	20.09%	2.77%
Industrial sector	10.38%	3.57%
Services sector	12.73%	4.43%
Overall	14.09%	3.94%

(SOURCE: PBS)

Over the fiscal year 2020-21, there have been signs of robust recovery. Technically, Pakistan's economy was in recession last year and with the GDP growth of 3.94% in the fiscal year 2020-21, now economy is out of recession. The agriculture sector grew by 2.77%. The growth of important crops during this year is 4.65%. The growth in production of important crops namely Wheat, Rice, Sugarcane and Maize are estimated at 8.1%, 13.6%, 22.0% and 7.4% respectively. The Manufacturing sector; specifically, Large-Scale Manufacturing (LSM) sector is continuously showing healthy growth. As a result, the economy has begun to emerge out of the recession caused even before emergence of COVID 19; mainly in 2018-19 in view of harsh conditions of International Monetary Fund (IMF) which the government was forced to implement. However the economy, as resilient as it has proven to be, is fortunately back on the path of recovery in which; Agriculture sector grew significantly on the basis of contributions of important crops, other crops, and livestock. Whereas Industrial sector performed fairly well, in which manufacturing sector contributed 12.7% in the GDP. Industries generating the most momentum were construction-allied that benefited from the favorable policy environment; including government's fiscal incentives under the construction support package, the Naya Pakistan Housing Scheme.

However, the pitfall is the trade-off between growth and inflation as we have seen Pakistan's persistent and relatively high rate of inflation; which remained in double digits since 2019-20. It continues to be out of control, largely because of supply side disruptions and increase in the administrative prices under Extended Fund Facility program. On the other hand, the shining aspect of this growth is government's remarkable success that was achieved in foreign remittances due to which Balance of Payment especially in current account turned into surplus. Other reason, of course, is the fact that compared to the level of 2017-18 our import have gone down. Unfortunately, the phenomenon is not one of export-led growth and for a long term, by no means it is sustainable considering that it is led by consumption.

The budgetary situation is still far from being commendable, in terms of progress. This year, government will have a budget deficit standing at 7% of GDP at the of fiscal year, However, leading economists predict that it is 8% in reality; based on the buildup of government debt up to March 2021. This is the worrying state of affairs and one of the reasons for low tax-to-GDP ratio. Going forward, attaining a tax collection target for 2021-22 in the range of Rs5,963 billion will be challenging given the third wave of the deadly pandemic that has affected many sectors of the economy. The key test for the government will be to sustain fiscal stabilization and economic progress while simultaneously implementing IMF's conditions.

The finance ministry has suggested 4.8% economic growth target for next fiscal year after National Accounts Committee approved 3.94% growth figure for outgoing year, whereas, the inflation is expected to be targeted at around 8%. Moreover, the current year's growth led to FBR's expected tax collection of Rs.5.32 trillion but compared to IMF's target of Rs.5.9 trillion it will still fall short. The government also proposed to levy additional taxes of Rs.350 billion in the budget which will translate into inflation. But even after these measures, government still lags behind by Rs.293 billion. In three years' span, the government injected Rs.2,555 billion worth of currency notes in the economy which led to rise in inflation by 6% to 7%.

Recipe for the healthy economy should be that the government lowers the rate of interest since because of the presence of huge parallel base economy, lower interest rate will help the government to reduce debt servicing in short term, medium term and long term. Lower interest rate will also give boost to businesses to operate on optimum level and will facilitate in bringing down the inflation. Secondly, the government will have to manage currency parity with a view to facilitate the exporters in taking a long-term view of their businesses.

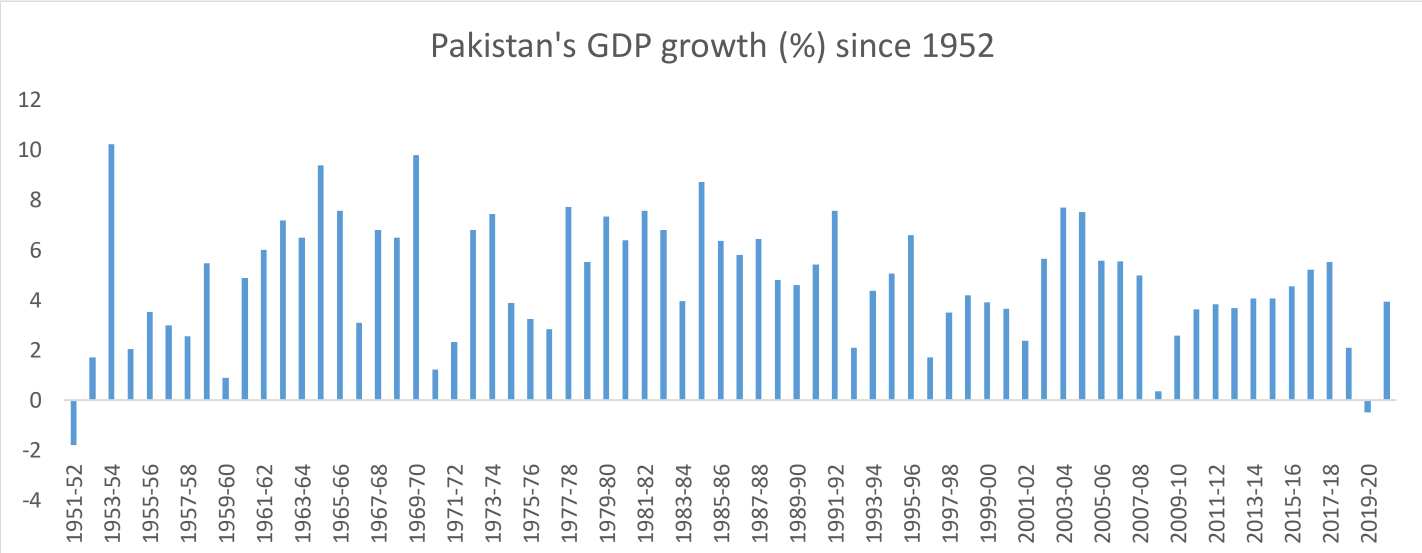
Pakistan's Real GDP growth Contribution

Sectors	Share in GDP	
	2019-20	2020-21
Agriculture	19.31%	19.19%
Industrial sector	19.21%	19.12%
Services sector	61.40%	61.68%

(Source: PBS)

The GDP size in US dollar terms has increased to $290 billion in 2020-21, whereas, it was recorded at $254 billion and $232 billion in 2019-20 and 2018-19 (as per current exchange rate), respectively. The historical GDP growth rate trend is as under:

Pakistan Economy 2020-21



(Source: PBS)

Industrial sector shows an increase of 3.57% provisionally, in which major growth contribution is recorded in LSM which stood at 9.29% growth, Small scale manufacturing also increase to 8.31%, and construction sector also shows the immense growth of 3.2%
Pakistan's Current account balance stood in surplus at around $773 million in the first nine months (July-March) of current fiscal year, according to the data of State Bank of Pakistan (SBP). A record growth in workers' remittances will help keep the current account in surplus in fiscal year 2020-21 despite a sharp increase in trade deficit, mainly on the back of a rise in imports following the lifting of a lockdown since Pakistan's economy relies heavily on imports.

Prior to COVID-19, the painful reforms agenda of IMF, which primarily focused on monetary and fiscal tightening, had pushed the country from an era of high growth to recession. Fortunately, now interest rate is down to 7% and government should bring it down further for robust economic activity. Presently, economy's debt-to-GDP ratio is in 90s.
The provisional growth of GDP for the year 2020-21 is based upon growth estimates of the agricultural, industrial and services sectors at 2.77%, 3.57% and 4.43%, respectively. The growth for 2019-20 was revised downward from -0.38% to -0.47%. The sector-wise brief is given below:

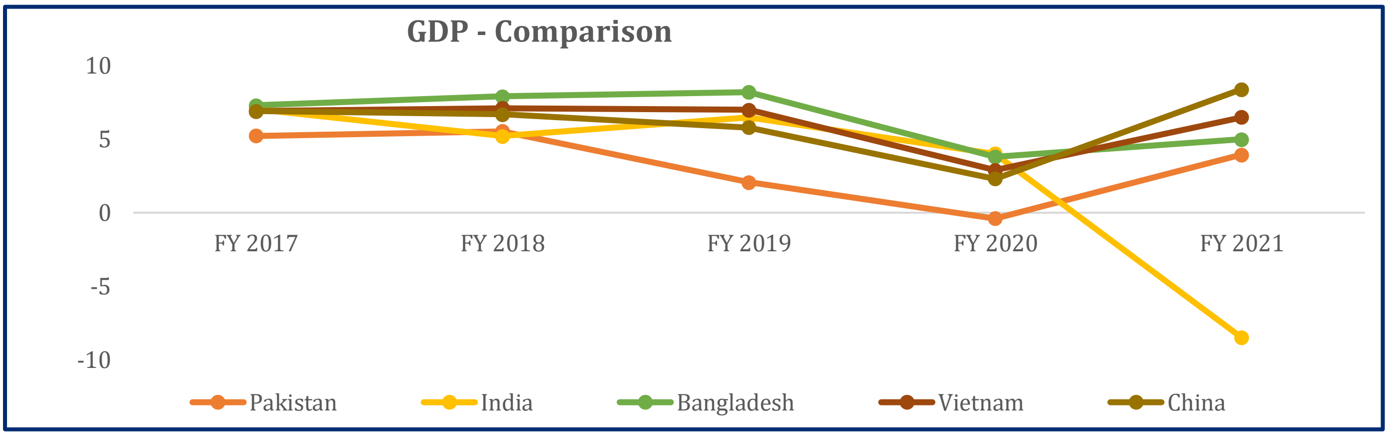
Sectors	2020-21		2019-20	
	Targets	Provisional	Provisional	Revised
Agriculture	2.80%	2.77%	2.70%	**3.31%**
Industrial Sector	0.10%	3.57%	(2.60%)	**(3.77%)**
Services Sector	2.60%	4.43%	0.60%	**(0.55%)**
GDP growth	2.10%	3.94%	(0.38%)	(0.47%)

(Source PBS)

1. GDP – GEOGRAPHICAL COMPARISON:

Pakistan's GDP growth has remained way behind the regional economies but recovered significantly from deadliest pandemic year of 2020. Comparing the GDP figures of 2017 and 2018, we can see a healthy growth rate of 5% which deteriorated in 2019 and lost competitiveness with the regional economies.

Two competitors of Pakistan, namely Bangladesh and Vietnam, witnessed consistent growth rate during recent years and managed to capitalize on export markets and retained their respective market shares. While India have been recovering tremendously with an economic growth targeted at 8.3%.



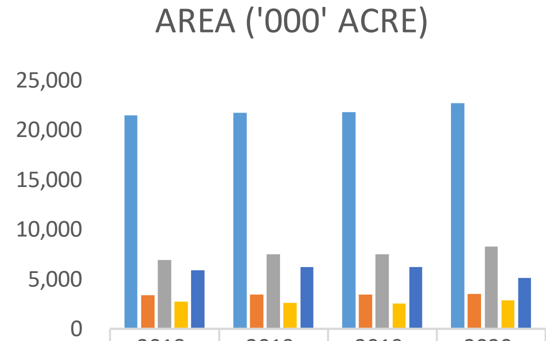
Period	Pakistan	India	Bangladesh	Vietnam	China
FY2021	3.94%	(8.5%)	5.00%	6.50%	8.40%
FY2020	(0.47%)	4.00%	3.80%	2.90%	2.30%
FY2019	2.08%	6.50%	8.20%	7.00%	5.80%
FY2018	5.53%	5.20%	7.90%	7.10%	6.70%
FY2017	5.22%	7.04%	7.30%	6.90%	6.90%

(Source PBS, IMF and World Bank)

2. AGRICULTURE SECTOR:

The agriculture sector contributed around 19% to GDP and around 38% with regard to employment in the country. The agriculture sector grew by 2.77% during the fiscal year 2020-21 while the growth of important crops during this year is 4.65%. The growth in production of important crops namely wheat, rice, sugarcane and maize are estimated at 8.1%, 13.6%, 22.0% and 7.4% respectively (Wheat production increased from 25.2 million tons to 27.3 million tons, production of rice increased from 7.8 million tons to 8.4 million tons, sugarcane production increased from 66.4 million tons to 81.0 million tons, and maize production increased from 7.9 million tons to 8.5 million tons). This sector performed well despite low growth in cotton ginning recorded at -15.58% because of cotton crop witnessing a decline in production by 22.8% from 9.1 million to 7.1 million bales. Interestingly, sugarcane crop shows a bumper growth while sugar is in short supply in the market forcing the government to import sugar. Cotton crop is provisionally estimated to have increased to 4.6 million tons in 2019-20 from 1.5 million tons in the same year's revised figure. However, cotton production and cotton bales have declined in fiscal year 2020-21 by 22.77% and 22.78% respectively. Overall, productions of wheat, rice, and sugarcane have shown rising trend.

Pakistan Economy 2020-21



	2018-19 F	2019-20 P	2019-20 R	2020-21
Wheat	21,468	21,750	21,759	22,678
Maize	3,395	3,469	3,470	3,504
Rice	6,944	7,514	7,497	8,241
Sugarcane	2,723	2,577	2,569	2,879
Cotton	5,864	6,220	6,220	5,137

One Hectare = 2.471 Acre

The table below shows the provincial yield per acre where Punjab shows significant improvement in 2020-21 provisional estimates in all major crops, whereas, others show slight improvement but again, it can be seen that the major contributors of important crops, i.e. Sindh and Punjab, show fall in cotton yield per acre which is in line with national yield per acre. Interestingly, cotton production estimates were revised in 2019-20 to 4.6 million tons from provisional figure of 1.5 million tons. On the other hand, wheat, maize, rice, and sugarcane have registered positive growth of 8.10%, 7.38%, 13.56% and 22.04% respectively in the provisional estimates for fiscal year 2020-21 documented in National accounts committee report.

Note: 1 Hectare = 2.471 Acre

Crops	2019-20 R								2020-21 P							
	Punjab		Sindh		KPK		Balochistan		Punjab		Sindh		KPK		Balochistan	
	AREA	Yield	AREA	Yield	AREA	Yield	AREA	Yield	AREA	Yield	AREA	Yield	AREA	Yield	AREA	Yield
Wheat	16,102	1.20	2,803	1.37	1,797	0.63	1,057	0.82	16,669	1.25	2,972	1.34	1,905	0.65	1,132	1.02
Maize	2,335	3.00	10	0.42	1,118	0.79	7	0.40	2,344	3.23	10	0.40	1,138	0.78	11	0.42
Rice	5,014	0.83	1,917	1.34	160	0.99	406	1.32	5,916	0.90	1,752	1.38	160	0.98	413	1.32
Sugar-cane	1,590	27.26	707	24.38	270	21.29	2	20.32	1,920	29.69	691	26.53	265	21.21	2	20.77
Cotton	4,645	0.69	1,479	0.95	0	0.61	95	0.51	3,821	0.67	1,173	0.81	0	0.81	143	0.56

(Source: NAC, PBS)

Livestock sector has posted a growth of 3.06% where all sub-sectors have shown reasonable growth except poultry sector which rose significantly by 12.76%. While Pakistan is 4th largest milk producing country in the world, in 2019-20, milk production was 79 million tons and unfortunately, around 20% of this milk production has been wasted.

Given table shows the segregated chart of livestock sector:

ITEMS	2019-20 (R) (Rs. In Million)	2020-21 (P) (Rs. In Million)	2019-20(R)/ 2018-19(F)	2020-21(P)/ 2019-20(R)
Gross output	1,776,473	1,848,642	03.02%	04.06%
Animals sold for slaughtering	403,468	415,242	02.91%	02.92%
Natural growth and re-generation	252,460	260,040	02.97%	03.00%
Livestock products	924,696	952,522	02.99%	03.01%
Milk	796,050	821,677	03.22%	03.22%
Others	128,646	130,845	01.59%	01.71%
Poultry products	195,849	220,838	03.46%	12.76%
Intermediate consumption	315,886	343,970	07.23%	08.89%
1. GVA	1,407,587	1,504,671	02.15%	03.02%
2. GVA hunting	52	76	(20.02%)	45.95%
3. GVA animal husbandry	7,877	8,852	(07.87%)	12.37%
TOTAL GVA (1+2+3)	**1,468,517**	**1,513,599**	**02.09%**	**03.07%**

(Source: NAC, PBS)

The growth in forestry sector is recorded at 1.42%, whereas, in fishery, it is 0.73%. In all, the Agriculture sector grew by 2.77% in 2020-21 vs. 3.31% a year ago. Whereas, the targeted growth was 2.80% in 2019-20. Important crops and livestock improved its performance, however cotton ginning dragged growth downwards. Important crops depicted 4.65 % growth due to an increase in production of wheat, rice and maize to reach their highest ever level in history. The cotton crop succumbed to unfavorable weather, low water availability, and pest attacks. The decline in cotton production has therefore undermined the crop sector performance in 2020-21.

Agriculture Sector	Provisional Growth 2020-21	Share in GDP
1. Crops (i+ii+iii)	2.47%	6.8%
i. Important Crops	4.65%	4.32%
ii. Other Crops	1.41%	2.24%
iii. Cotton Ginning	(15.58%)	0.31%
2. Livestock	3.06%	11.53%
3. Forestry	1.42%	0.40%
4. Fishing	0.73%	0.39%
Overall Growth	**2.77%**	**19.19%**

(Source: PBS)

Agriculture sector share in the GDP (constant) in 19.19% in 2020-21. The share of Agriculture in Pakistan's GDP was 18.99% in 2017-18, which increased to 19.31% in 2019-20, according to the revised figures of NAC published on 21st May 2021. However, the performance of this sector may be attributable to the fact that other sectors had not performed that well due to lockdown restrictions which did not affect the agriculture sector that much in 2019-20. The important crops and production stocks and livestock sector, drove the overall growth of the agriculture sector in 2019-20. Within the important crops, three crops performed reasonably well that include wheat, rice and maize. However, Cotton crops witnessed losses same as 2020-21 due to adverse weather conditions, low water availability and the pest attacks. Cotton crop's growth could have outperformed the overall crop production in 2019-20, which contracted by 6.9% compared to previous year. Livestock sector has around 60% share in agriculture and contributes 11% in GDP. The same grew by 2.58% according to NAC estimates. Growth of livestock sector and poultry sector was impacted due to drop in demand of hospitality industry in 2019-20 revised.

3. INDUSTRIAL SECTOR:

The share of the industrial sector in GDP is 19.12% for 2020-21 versus 19.21% in 2019-20. Large Scale Manufacturing (LSM) plays an instrumental role in economic development, job creation and maintenance of economic surplus of the country. For many years, it has been driving GDP growth of the country. Under this sector, manufacturing sector contributes to around 70% in total industrial output which translates to 13% of GDP. The industrial sector managed to post a resilient growth in 2020-21 and has significantly increased by 3.57%; mainly due to rise in LSM which rose by 9.29%. This is followed by Small Scale Manufacturing (SSM) that rose by 8.31%, which accounts for around 2% in the GDP.

Despite the fact Pakistan has rich reserves for precious metals and quality minerals, mining and quarrying sector is still not performing to its potential, registering a fall of 6.49%. This makes the negative growth of straight two years for this sector, as its growth stood at -8.28% in 2019-20 compared to final estimates of 2018-19. One of the main reasons for this poor performance in current fiscal year is due to decline in production of gas and crude oil by 4.7% and 6.7% respectively.

The large-scale manufacturing sector is driven primarily on data from July 2020 to March 2021 which shows an increase of 9.29%. Major contributors to this growth are Textile (5.9%), Food, Beverage and Tobacco (11.73%), Petroleum products (12.71%), Pharmaceuticals (12.57%), Chemicals (11.65%), Non-Metallic Minerals (24.31%), Automobiles (23.38%), and Fertilizer (5.69%). Electricity and gas sector shows a decline of 22.96%, mainly due to fall in subsidy and because of generation and transmission capacity of current system. The construction activity has increased by 8.34% mainly due to increase in general government spending (36%). Further, the contribution of this sector is driven by investment in different construction activities. The government's initiative for Construction sector moves in a right direction by offering the incentive package in which includes tax exemptions, subsidy of Rs.30 billion for Naya Pakistan Housing Scheme and amnesty for people investing in this sub-sector.

Industrial Sector	Provisional Growth 2020-21	Share in GDP
1. Mining and Quarrying	(06.49%)	2.38%
2. Manufacturing (i + ii + iii)	08.71%	12.79%
i. Large Scale	09.29%	9.73%
ii. Small Scale	08.31%	2.12%
iii. Slaughtering	03.89%	0.94%
3. Electricity Generation and Distribution and Gas Distribution	(22.96%)	1.35%
4. Construction	08.34%	2.61%
Overall Growth	**03.57%**	**19.12%**

(Source: PBS)

The growth of industrial sector in the revised estimates of 2019-20 is -3.77% which was -2.64% in the provisional estimates. Large Scale Manufacturing (LSM), which was estimated through data from July 2019 to March 2020, declined from -7.78% to -10.12%. Major decline has been observed in Textile (from -0.36% to -10.4%), Food, Beverages and Tobacco group (from -0.7% to -2.13%), Coke and Petroleum Products (from -13.5% to -20.10%), Automobiles (from -35.0% to -44.5%), Iron and Steel Products (from

-7.0% to -17.36%) and Engineering Products (from -2.70% to -18.71%). Electricity generation and distribution and gas distribution industry improved from 17.70% to 22.40% due to increase in subsidy. In construction sector, which is based on construction expenditures incurred by various industries, provisionally, the growth in this sector was estimated at 8.06%. However, the revised growth has been estimated at 5.46%. Mainly due to decline in general government expenditure.

Given table shows the production data of LSM industries for the years, 2019-20 revised, 2019-20 for the eight months July to March and 2020-21 provisional estimates for July to march.

S NO	ITEMS	UNIT OF QUANTITY	WEIGHT	PRODUCTION IN		
				2019-20(R)	2019-20 (JUL-MAR)	2020-21 (JUL-MAR)
	Textile		20.9149			
1	Yarn	MT	12.9646	3,059,942	2,498,515	2,577,675
2	Cloth	000 Sq M	7.1858	934,540	763,115	786,042
	Food, Beverages and Tobacco		12.3703			
3	Sugar	MT	3.5445	4,881,225	4,816,448	5,618,976
4	Cigarettes	Mil. Nos	2.1252	46,103	33,521	39,473
5	Cooking Oil	MT	2.2271	441,718	331,234	330,759
6	Vegetable Ghee	000 L	1.1444	1,447,166	1,101,461	1,064,326
	Coke and Petroleum Products	MT	5.5140			
7	Petroleum Products	000 L	5.4096	12,138,587	9,412,064	10,608,419
	Fertilizers		4.4407			
8	Nit. fertilizers	NT	4.0411	3,138,586	2,352,979	2,450,066
9	Paper and Board	MT	2.3143	719,807	556,158	552,824
10	Cement	000 MT	5.2990	39,122	30,063	37,620

(Source: NAC, PBS)

Covid-19 pandemic particularly intensified economic woes of the industrial sector which depicted major contraction last year. LSM growth remained predominantly negative last year because of COVID related lockdown severely damaging its recovery. Government's effective handling and stimulus packages helped the sector to revive and post healthy growth.

Industrial sector is targeted to initiate the growth momentum by growing at 6.5 % during 2021-22. Manufacturing sector is targeted to grow by 6.2 % based upon LSM growth of 6.0 %, and small scale and household manufacturing at 6.3% growth. Industry is expected to pick up pace in 2021-22 with the implementation of envisaged export promotion and industrial development measures. Recent new entrants in automobile sector will add to competition in the sector. Prime Minister's special package for construction sector is expected to play a significant role in accelerating growth in construction and allied industries. As a result of combined Federal PSDP, Provincial ADPs, Naya Pakistan Housing Initiative, FBR's Construction Amnesty Scheme, and NPH and the mandatory 5% bank portfolio for mortgage finance, amounting to more than Rs 2 trillion, the construction sector is expected to be a major growth anchor in the Industrial sector. In addition, Energy demand is expected to increase by 6% which will feed into Electricity Generation and Gas Distribution sub-sector growth.

4. SERVICES SECTOR

The share of services sector in GDP stood at 61.68% showing a minor increase from 61.40%, supported by close backward and forward linkages with economic value added and output of agriculture and manufacturing sectors. Services sector's growth increased to 4.43%, that dropped by 0.55% a year ago.

Services Sector	Provisional Growth 2020-21	Share in GDP
1. Wholesale and retail trade	8.37%	18.82%
2. Transport, storage and communication	(0.61%)	12.18%
3. Finance and insurance	7.84%	3.72%
4. Housing services	4.01%	6.97%
5. General government services	2.2%	8.21%
6. Other private services	4.64%	11.77%
Overall Growth	**4.43%**	**61.68%**

(Source: PBS)

As per Planning commission and PBS provisional data, Wholesale and Retail Trade sector, which depends on output of agriculture, manufacturing and imports, grew by 8.37%. Under this, the growth in trade of value added relating to agriculture, manufacturing and imports stands at 3.81%, 8.16% and 16.12% respectively. Transport, Storage and Communication sector declined by 0.61% due to decrease in use of railways, air transport and communication. Finance and insurance sector shows an overall increase of 7.84% owing to increase in deposits, loans and insurance. The provisional growth in General Government Services based on budgeted data stands at 2.20% while the provisional growth in other private services is 4.64%.

For the last five years from 2016-17 to 2020-21, services sector has been growing on an average by 4.09%. This year, wholesale retail has been recorded at a good pace while it has not performed well since arrival of current regime with 1.08% and -3.94% growth reported in 2018-19 and 2019-20 respectively. While NAC announced the revised estimates of 2019-20 fiscal year, the growth of services sector has slightly improved from -0.59% to -0.55%, whereas, wholesale and retail trade has seen a fall from -3.42% to -3.94%. Transport, storage and communication has increased from -7.13% to -3.80% which shows the rise in real terms from Rs.14 billion to Rs.86 billion because of increase in revenue of PTA as per National Accounts Committee report. Finance and insurance has improved from 0.79% to 1.13% and it needs to show further improvement as it is the backbone of the economy and provides support to all other sectors. Financial inclusion for majority of the population is very important and necessary. General government services have decreased from the budgeted figures of 3.92% to 1.02% in the revised estimates. Other private services decreased from 5.39% to 4.56% due to decline in other business, recreation, culture and sports activities.

As the economy is still experiencing the deadly effects of Covid-19 on services sector as it has grown at 6% pace in previous years; if further and stricter lockdown measures are adopted by the government, it may stagnate this sector's growth. It is likely to further meltdown the growth prospects of private sector going forward. As the effects of Covid-19 subside due to vaccine facilities being made available, it may help in coming out of existing depressed economic dynamics posing multiple domestic and external challenges. Therefore, under the present scenario, a phase of high economic growth is expected in the near future.

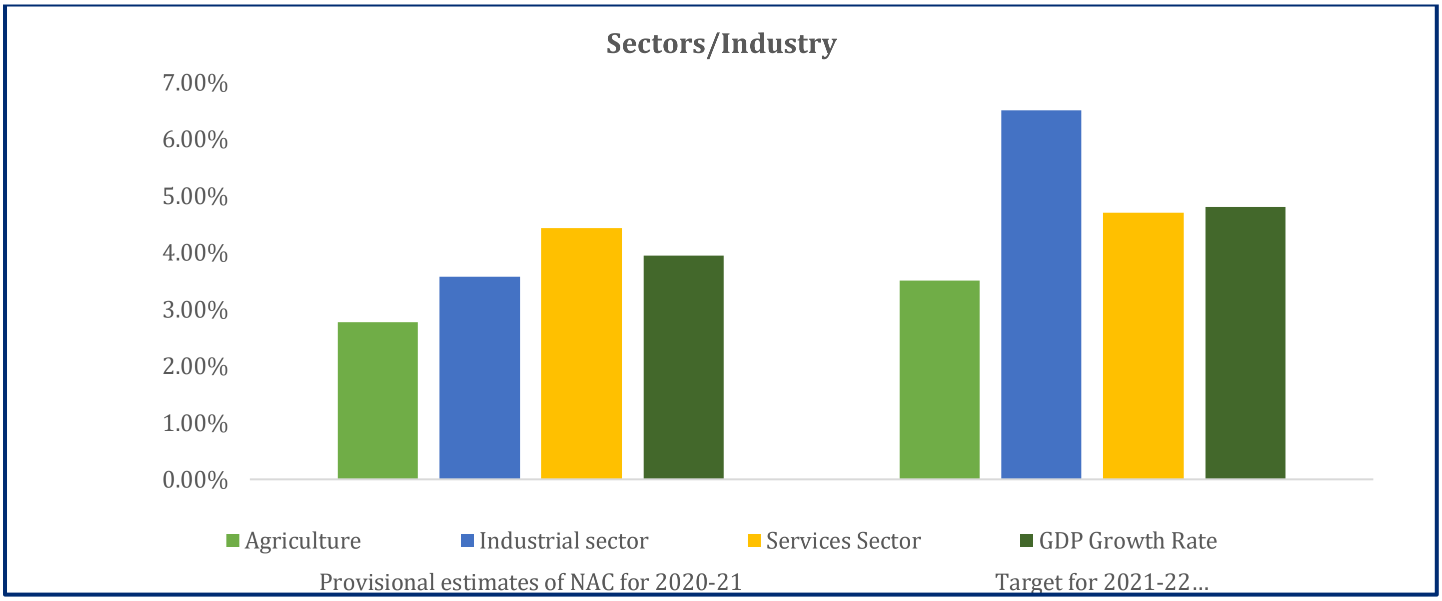
Services Sector is targeted to grow by 4.7 % in 2021-22 which is still lower than its five-year pre-Covid annual average growth of 5.3 %. This growth is supported by 4.6 % growth in wholesale & retail trade, 4.7 % in transport, storage & communication, 5.2 % in finance & insurance, 4.0 % in housing, 4.5 % in general government services and 5 % in other private services. The expected revival in commodity producing sectors will complement the targeted growth in services sector.

5. PAKISTAN'S ECONOMIC GROWTH PROJECTIONS FOR 2020-21:

According to the Planning Commission, the overall GDP growth is expected to pick up in 2021-22. The GDP growth of the country for 2020-21 is targeted at 4.8% out of which, agriculture, industry and services sector are expected to post 3.5%, 6.5% and 4.7% growth respectively.

Sectors	Target for 2021-22
Agriculture	3.5%
Industrial Sector	6.5%
Services Sector	4.7%
Overall GDP	4.8%

(Source: Planning Commission)



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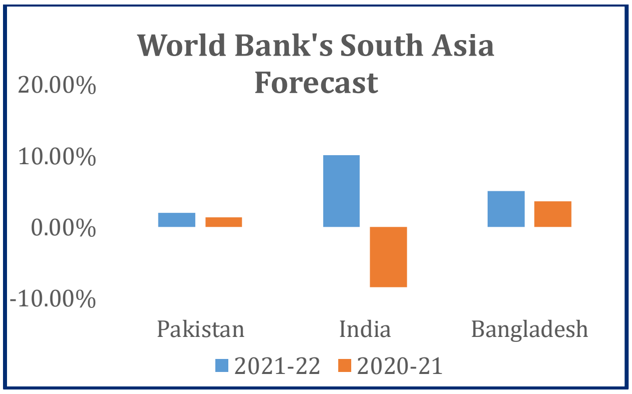
Sectors/Industry	Provisional estimates of NAC for 2020-21	Target for 2020-21 (2005-06 prices)
A. Agriculture	**2.8%**	**3.5%**
Important crops	4.7%	2.2%
Other crops	1.4%	3.2%
Cotton Ginning	(15.6%)	10.0%
Livestock	3.1%	3.7%
Forestry	0.7%	5.0%
Fishing	1.4%	5.0%
B. Industrial sector	**3.6%**	**6.5%**
Mining and Quarrying	(-6.5%)	4.1%
Manufacturing (i+ii+iii)	8.7%	6.2
i. Large Scale	9.3%	6.0%
ii. Small Scale	8.3%	6.3%
iii. Slaughtering	3.9%	3.6%
Electricity generation and distribution	(23.0%)	10.7%
Construction	8.3%	8.3%
C. Services Sector	**4.4%**	**4.7%**
Wholesale and Retail trade	8.4%	4.6%
Transport, storage and communication	(0.6%)	4.7%
Finance and Insurance	7.8%	5.2%
Housing Services	4.0%	4.0%
General Govt. Services	2.2%	4.5%
Other private Services	4.6%	5.0%
GDP Growth Rate	**3.9%**	**4.8%**

(Source: Planning Commission)

According to the World Bank, Pakistan's economy will expand in 2020-21. Mostly due to contributions from private consumption. World Bank further revealed, sectors that employ the poorest, such as agriculture, are expected to remain weak, and therefore poverty is likely to remain high. The current account deficit is projected to narrow to 0.8 % of GDP in Fiscal year 2020-21, as a wider trade deficit is more than offset by stronger remittances inflows.



World Bank's South Asia Forecasted GDP Growth		
Countries	**2021-22**	**2020-21**
Pakistan	2.00%	1.30%
India	10.10%	(8.50%)
Bangladesh	5%	3.60%

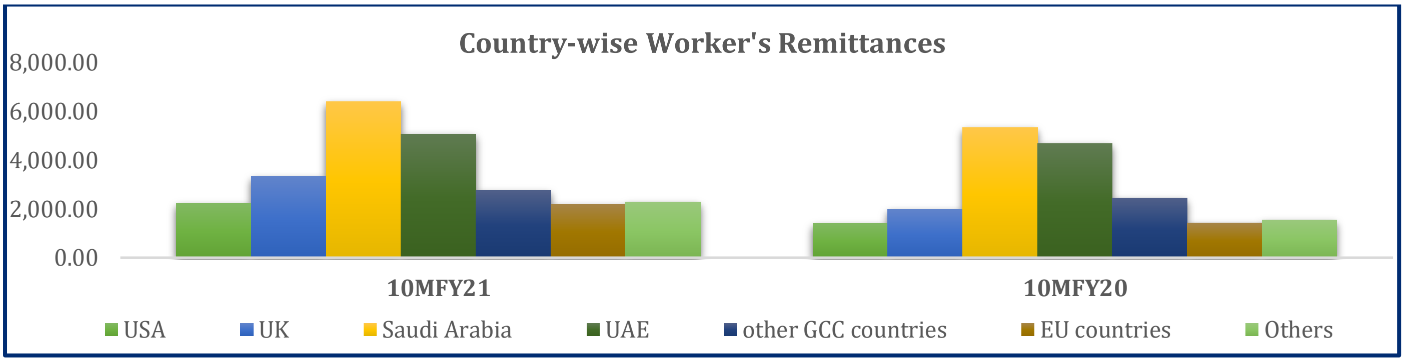
(Source: World Bank)

- According to proposed annual plan of the Planning Commission for 2021-22, GDP growth is expected to further boost on the back of recovery of industrial and services sectors while agriculture will maintain its normal growth trajectory
- The targeted 4.8% growth rate for 2021-22 is anchored upon ensuring quality growth without triggering fiscal and external sector imbalances and targeting single digit inflation.
- The Planning Commission, envisages overall macroeconomic stability in view of fiscal consolidation, robust external account and revival in agriculture and industrial growth.
- The growth targets are subject to favorable weather conditions, vaccination drive for Covid-19 to reach maximum population and easing of Covid related restrictions before the end of first half, managing current account deficit, consistent economic policies and well-aligned monetary and fiscal policies.
- Further monetary easing will also improve fiscal position. Inflation is expected to remain in single digit but inflationary pressures are likely to persist as global surge in prices is to stay for some time.
- Monetary and debt relief will improve fiscal position.
- External sector will also be manageable as buoyancy in remittance inflows and better exports performance is expected to continue.
- Expectation of resurgence of global commodity demand in 2021-22 and revival of economic activity after slowing down of the effects of the deadly pandemic is a positive signal for exporters.
- Pakistan’s exporters will be facing challenging domestic and external environment. Import demand is likely to increase due to growing aggregate demand.
- Trade deficit is projected at 7.1% of GDP and current account deficit is expected to stay at 0.7% of GDP.
- Projected growth of Pakistan’s exports and imports in 2021-22 is 5.3% and 9.5% respectively.

6. WORKER’S REMITTANCES

On a cumulative basis, remittances have surpassed previous records. At $24.2 billion in July-April FY21, remittances grew by 29% over the same period last year and have already crossed the full FY20 level by more than $1 billion, Pakistani emigrants had sent home $23.1 billion during the last fiscal year. It will rise further in current fiscal year given prolongation of travel restrictions amid resurgence of COVID. Whereas, Normalization of air travel would be a key risk to remittances.

Pakistan’s remittances have surpassed $2 billion mark for 11th consecutive month since June 2020. On year-on-year basis, Pakistan’s Overseas Worker's Remittances surged by 55.63% from $1.7 billion in April 2020 to $2.77 billion in April 2021.



Country-wise Worker's Remittances						
($ million)	Apr-21	Mar-21	M/M change	10MFY21	10MFY20	Y/Y change
USA	314.9	283.3	11.14%	2,216.7	1,399.5	58.39%
UK	431.1	371.2	16.13%	3,331.6	1,980.6	68.21%
Saudi Arabia	664.5	690.4	(3.75%)	6,396.3	5,324.1	20.14%
UAE	549.3	589.7	(6.85%)	5,075.6	4,682.3	8.40%
Other GCC countries	297.3	313.9	(5.30%)	2,755.8	2,448.1	12.57%
EU countries	251.3	234.6	7.11%	2,192.9	1,420.2	54.40%
Others	269.9	241.8	11.62%	2,277	1,539	47.97%
Total	2,778	2,725	1.96%	24,246	18,794	29.01%

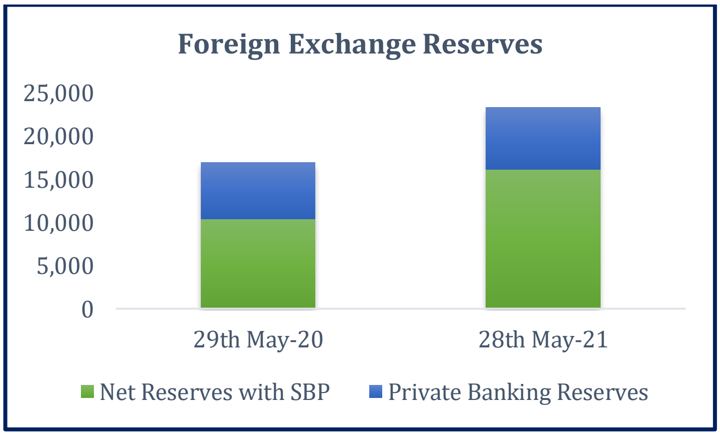
(Source: SBP)

7. FOREIGN EXCHANGE RESERVES

The State Bank of Pakistan's ("SBP") reserves stand at $16.13 billion as of 28th May 2021.

($ in million)	May 28, 2021	May 29, 2020
Net Reserves with SBP	16,133	10,362
Private Banking Reserves	7,161	6,581
Total Forex Liquid Reserves	23,294	16,943

(Source: SBP)



With respect to the reserves held by SBP, every month SBP releases 'International Reserves and Currency Liquidity' report where aggregate of both the short and the long term future positions in foreign currencies vis-a-vis domestic currency (including the forward leg of currency swaps) are reported. From the latest report of April 2021, by the end of the month, the government had reserves at $15.59 billion which included $4.56 billion swaps and therefore, SBP's net reserves came to $11.03 billion. This manner of reporting foreign currency reserves of SBP, has been in practice since 1998 and before the present regime came into power, the Swap stood at $6.96 billion in June 2018.

8. BALANCE OF PAYMENT

According to the SBP, Pakistan's current account deficit dropped by 117% against last year to $773 million worth of surplus at the end of April 2021, primarily due to contraction in imports and the record-breaking increase in foreign remittances. Unfortunately, it is not an export-led growth scenario and from this perspective, the current account has posted a marginal deficit of $200 million due to deterioration in exports by 7.23% in April 2021. It clearly shows that the government needs to focus export enhancement by upgrading value chain in LSM sector to capture global market.

According to SBP's data, if current account remains in surplus till the end of FY20-21, this will be for the first time in 10 years that current account so remains for a full year. Previously, the country had the surplus current account in fiscal year 2010-11.

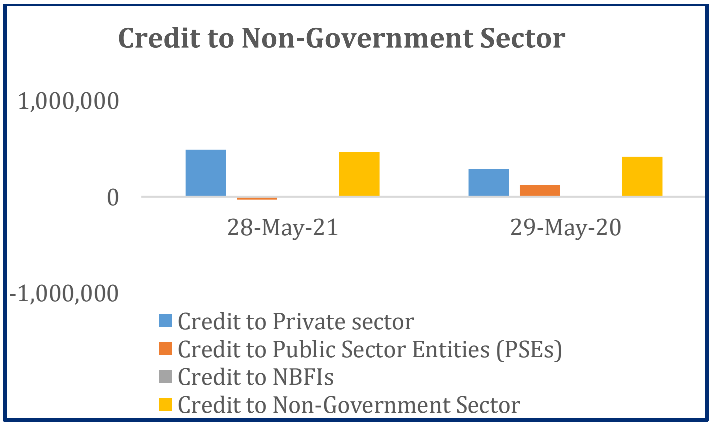
A steep growth in workers' remittances will help keep the current account in surplus in FY20-21 despite a sharp increase in trade deficit mainly on the back of a rise in imports following the lifting of a lockdown as Pakistan's economy relies heavily on imports.

($ in million)	Apr-21 Provisional	Mar-21 (Revised)	Percentage Change	Jul-Apr FY21	July-Apr FY20	Percentage Change
Current account Balance	**(200)**	**(33)**	506.1%	773	(4,657)	(116.6%)
Capital Account Balance	**21**	**20**	5.0%	204	246	(17.1%)
Financial Account Balance	**(2,106)**	**(874)**	141.0%	(3,472)	(8,859)	(60.8%)
Net FDI in Pakistan	**(159)**	(167)	(4.8%)	(1,154)	(2,360)	(51.1%)
Net Portfolio investment	**(2,452)**	(115)	2032.2%	(2161)	303	(813.2%)
Net incurrence of Liabilities	**(918)**	**278**	(430.2%)	697	6,797	(89.7%)
Overall Balance	**(2,027)**	**(773)**		(3,564)	(5,390)	
SBP Gross Reserve	**17,014**	14,906		17,014	14,038	

(Source: SBP)

9. CREDIT TO NON-GOVERNMENT SECTOR

Private sector credit-off rises to Rs. 489 billion as of 28th May 2021 vs. 288 billion last year.

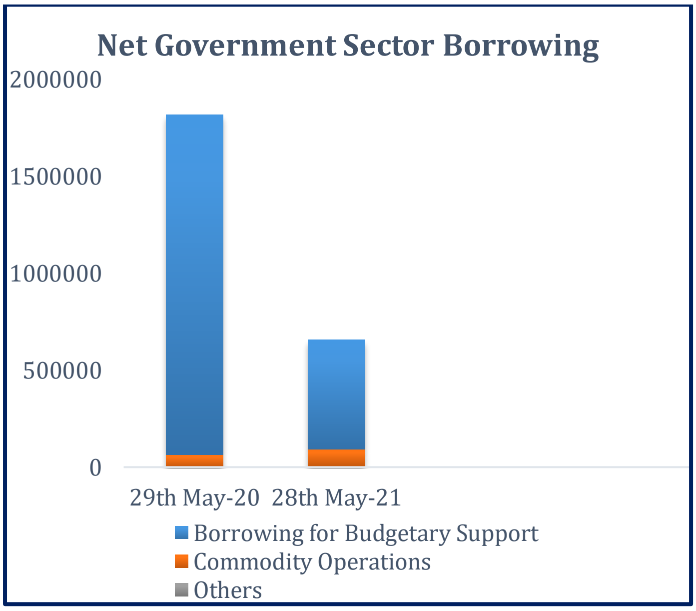


(PKR in million)	Monetary Impact since 1st July to 28-May-21	Monetary Impact since 1st July to 29-May-20
Credit to Private sector	489,553	288,868
Credit to Public Sector Entities (PSEs)	-32,348	125,325
Credit to NBFIs	6,941	2,145
Credit to Non-Government Sector	464,146	416,338

(Source: SBP)

10. NET GOVERNMENT SECTOR BORROWING

Overall, the net government sector borrowing stood at PKR 656 billion in current fiscal year vs PKR 1,819 billion last year from 1st of July to 28th may 2020-21 and 29th may 2019-20 respectively.

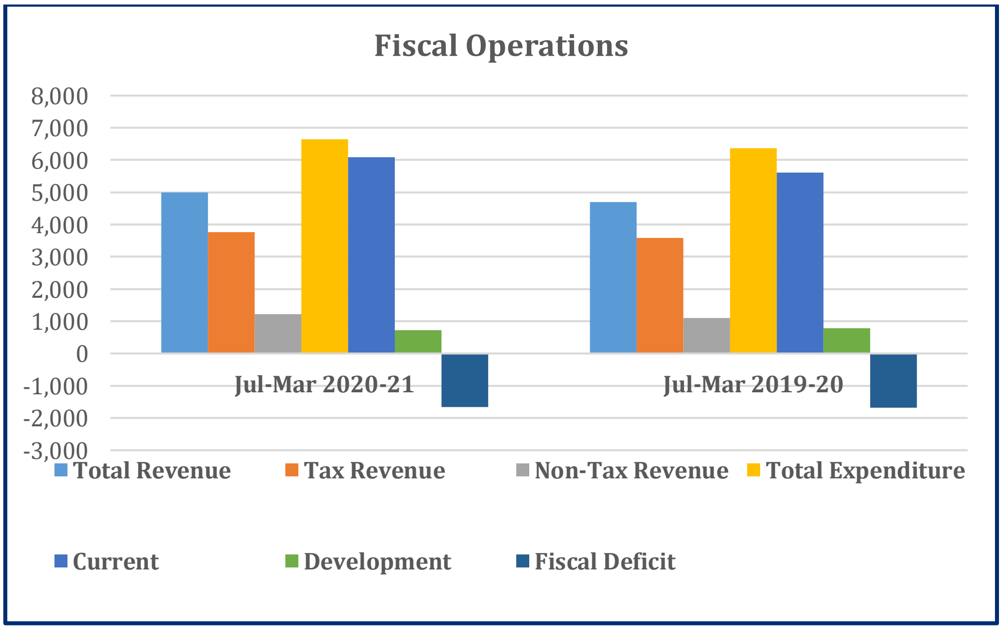


(PKR in million)	Monetary Impact since 1st July to	
	28-May-21	29-May-20
Borrowing for Budgetary support	563,512	1,754,636
Commodity Operations	90,050	64,344
Others	2,809	266
Net government Sector Borrowing	656,371	1,819,246

(Source: SBP)

11. FISCAL OPERATIONS:

As far as Pakistan's economy fiscal operation concern, "let's decide once and for all, tax will derive the economy of Pakistan or economy will derive taxation system of Pakistan". Under the current IMF program, the fiscal deficit consolidation is a fundamental objective to contain Pakistan's fiscal deficit, boost country's economic growth and reduce the vulnerabilities while keeping buffers in place. As far as recipe of Pakistan's economy concern with a huge parallel base and these policies of IMF are imposing more and more taxes clipping the wings of many concerned sectors, as it pushed economy in deep recession for the last three years.



Consolidated Fiscal Operations			
Rs in Billion	July-March		Percentage Change
Fiscal-Side	2020-21	2019-20	
Total Revenue	4,993	4,690	6.5%
Tax Revenue	3,765	3,594	4.8%
Non-Tax Revenue	1,228	1,096	12.0%
Total Expenditure	6,645	6,376	4.2%
Current	6,085	5,612	8.4%
Development	723	781	(7.4%)
Fiscal Deficit	(1,652)	-1,686	(2.0%)

(Source: MOF)

(Rs. In Billion)	July-May 2020-21	July-May 2019-20	Percentage change Y/Y
FBR's Tax collection	4,170	3,549	17.5%

****FBR's actual tax Revenue during July-May 2020-21are Rs. 4170 billion. The improved revenue performance is a reflection of growing economic activities in the country despite facing the challenge of third wave of COVID-19. However, during the Eid holidays, revenue collection slowed down considerably.***

According to FBR's official press release, FBR has thus far collected Rs.4.17 trillion during July-May 2020-21 vs Rs.3.54 trillion last year, which is 18% higher than last year. The FBR needs to collect Rs. 521 million more in June 2021 to achieve the revised tax collection target set for the FBR, by the IMF, which stood at Rs. 4.69 trillion previously was Rs. 4.96 trillion for the outgoing fiscal year in its latest staff report released after completion of the second to fifth reviews under $6 billion EFF for Pakistan in April 2021. Now we are down to last month of outgoing fiscal year, while the month of May has emerged as the third consecutive month when the FBR revenue collection surpassed the projected monthly target despite Covid-19 impact on all segments of economy. The FBR still expects to pocket a few more billions after book adjustments. The FBR has collected net revenue of Rs4.17 trillion during July 2020-May 2021 period in 11 months of current fiscal year, which has exceeded the target of Rs3.994tr by more than Rs173 billion or 4.4%. However Pakistan faces the imposition of lockdown from mid of March 2020 due to COVID pandemic due to which FBR faced low collection in May 2020 and onwards. As per IMF, the FBR's tax revenue collection target for Upcoming fiscal year is set at Rs. 5.9 trillion previously it was 6.1 trillion rupees and now has been revised. However Pakistani officials are pursuing IMF to revise it down 5.5 trillion rupees as per government estimates, It will not be feasible to repeal the GST exemptions related to agriculture and health because it will hike inflationary pressures and make the health sector expensive when the third wave of Covid-19 pandemic is gripping the country.

The achievement of this target is difficult because with 4.8% of GDP and 8% of inflation, the maximum target for FBR revenue may not exceed 5320 billion. The balance 643 billion rupees can only be collected by additional taxation which government imposed (350 billion rupees) and if government take drastic administrative measures and taxing the income where insignificant taxes are being collected. Agriculture and wholesale trade, which comprises of 44% (As per government estimates of fiscal year 2020-21) of the Real GDP contributes about 1.5% in total direct taxes. Whereas export sector which is 10% of GDP contribute only 1% of direct taxes. The potential of these sources needs to be tapped for their optimum contribution which will not only provide equity to the system but also will increase the revenue base of government. Furthermore outsourcing of automation shall be considered on Turkish model as our revenue automation arm PRAL cannot go beyond its present capacity. If we just concentrate on collecting revenue from the existing taxpayers it might end up dead weight loss to the economy. Where Pakistan's fiscal deficit stood at 3.6% during July-March FY2021 which is likely to shoot up to around 7.5% to 8% of GDP till June 2021 mainly based on government debt.

Pakistan's Estimated Fiscal Deficit	In FY 2021-22 (Rs in billion)
Expenditures	11,731
Revenue	8,861
Fiscal deficit	(2871)
Fiscal deficit (exc. grants)	(2917)

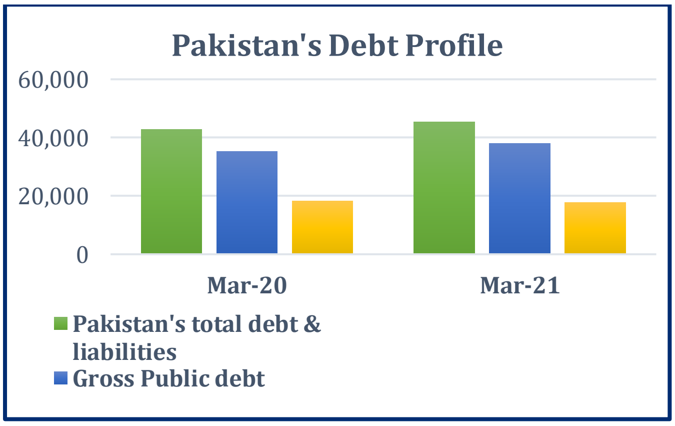
(Source: IMF)

Under the severe consequences of the pandemic, it will be a tough ask for the government to accomplish tax revenue target of Rs.5.9 trillion for 2021-22. Without substantial growth in tax collection efforts, enhancement in tax base, implementation of reforms agenda in FBR and economic growth, Pakistan cannot achieve fiscal consolidation objectives of the IMF.

12. PAKISTAN'S DEBT PROFILE

Total debt and liabilities stood at 97.4% of GDP at the end of March 2021 as against 102% of GDP in the corresponding period last year. However, in nominal terms, it increased by 6%. Total debt and liabilities stood at Rs.45 trillion by end of March 2021 compared to Rs.42.8 trillion at the end of March 2020 due to constrained fiscal space and swelling debt ratios.

The SBP said in a first quarterly report on the State of Economy for FY2021 that the government accommodated a deficit budget and a rise in public debt for FY2021 in order to extend pandemic-related relief and to accelerate the pace of economic recovery. Without effective public debt management, fiscal consolidation and consistent economic growth, Pakistan's debt sustainability is likely to remain a key concern for policy-makers. Pakistan's total debt and liabilities profile is provided hereunder:

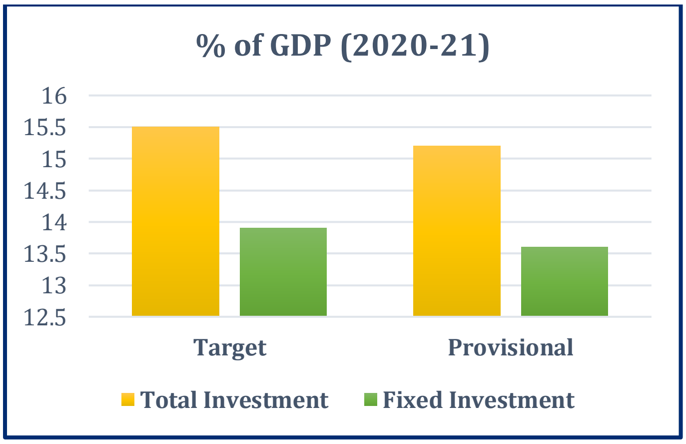


Pakistan's Total Debt & Liabilities (Rs in billion)	Mar-21	Mar-20	% change
Pakistan's total debt & liabilities	45,470	42,805	6.0%
% of GDP	97.4	102.6	-
Gross Public debt	38,006	35,207	8.0%
% of GDP	81.4	84.4	-
Total external debt & liabilities	17749	18,310	(3.0%)
% of GDP	38.0	44.0	-

(Source: SBP)

13.SAVINGS VERSUS INVESTMENT GAP 2020-21:

Investment-to-GDP ratio has slightly declined from 15.3% of GDP in 2019-20 to 15.2% in 2020-21 as per planning commission report where fall in foreign direct investment (FDI) was the main cause for this downslide. However Fixed investment increased by 5.8% in real terms and 13.8% in nominal terms while private sector investment increased by 6.5%, notwithstanding fall in FDI owing to global pandemic driven uncertain environment. However, in real terms, private investment contracted marginally by 1.3% and that too driven by 68% fall in real terms in investment related to electricity & gas distribution sector where CPEC-related projects of power sector are mostly completed. Public sector investment inched up to 3.8% of GDP in 2020-21 from 3.2% last year, while private sector investment declined from 10.6% of GDP in 2019-20 to 9.8% in 2020-21. National Savings have improved to 15% of GDP in 2020-21 from 13.6% in 2019-20. Pakistan's reliance on foreign savings has decreased as investment needs are financed by national savings.

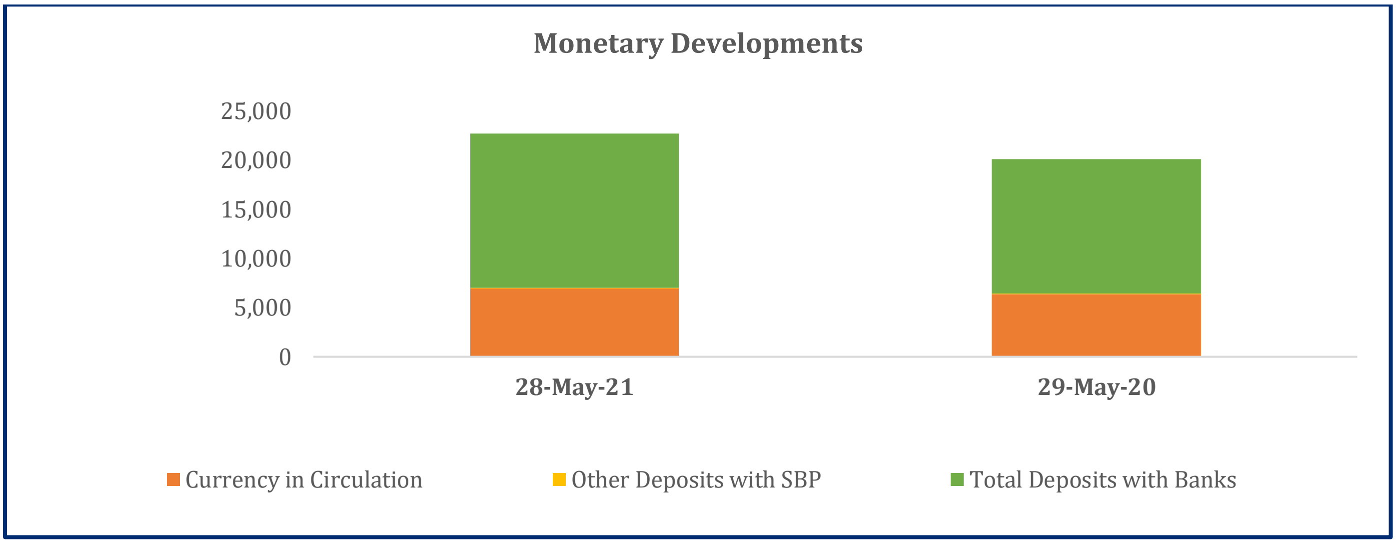


% of GDP(mp)	Fiscal Year 2020-21	
	Target	Provisional
Total Investment	15.5	15.2
Fixed Investment	13.9	13.6
Public	3.8	3.8
Private	10.1	9.1
National savings	13.8	15.3
External resources inflow net	1.6	0.1

(Source: PBS & Planning Commission)

14.MONETARY DEVELOPMENTS:

SBP has decided to keep the policy rate unchanged at 7% with a view to support economic recovery and it has maintained a tight Monetary Policy during most of the period of 2019-20 fiscal year, before the global response of the central banks to counter the effects of pandemic, the SBP has cut the Policy Rate from 13.25% to 8% and now in Fiscal year 2020-21 it is still unchanged at 7%. In the meeting of Monetary Policy Committee it was noted that the current stance of monetary policy remains appropriate to support economic recovery while keeping inflation expectations well-anchored and maintaining financial stability. The challenge would be to strike a balance between growth and stability in such a way that monetary policy tools provide much needed support to economic growth while containing inflationary pressure. Some of the latest monetary policy indicators are highlighted below,



(Billion Rupees)	Monetary Impact since 1st July to	
Components	**28-May-21**	**29-May-20**
Currency in circulation	6,943	6,372
other deposits with SBP	62.7	38.09
Total deposits with banks	15,661	13,662
M2	22,667	**20,072**
Growth	**13%**	**17%**

(Source: SBP)

Periods	Increase/-Decrease In (Rs in Billion)					
	Currency in circulation		**Demand Deposits**		**Time Deposits**	
	Total	**Month Avg**	**Total**	**Month Avg**	**Total**	**Month Avg**
July 2013 to June 2018	2,450	41	4,486	75	(127)	(2)
July 2018 to May 2021	2,555	71	3,676	102	213	6

(Source: SBP)

15.INFLATION

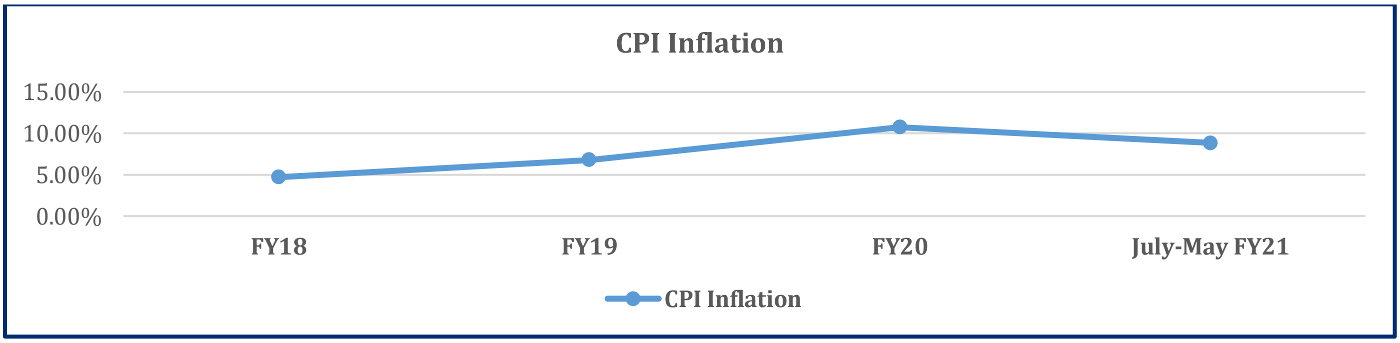
The inflation updates are as follows:

(Base year 2015-16) Period	National CPI	Food		Core CPI	
		Urban	Rural	Urban	Rural
May-2021	10.9	15.3	12.8	6.80	7.60
May-2020	8.20	10.6	13.70	6.30	8.40

(Source: SBP)

Pakistan Economy 2020-21

Pakistan's inflation rose to 10.9% in May 2021 when compared to 8.20% a year ago. Average CPI inflation for July-May FY21 increased to 8.83% over July-May 2019-20. The average inflation since FY18 is as under:



Period	CPI Inflation
July-May FY21	8.83%
FY20	10.74%
FY19	6.8%
FY18	4.7%

(Source: SBP & PBS)

16. TAKEAWAY

As the country had been reeling from recession, the economy sprang a surprise, growing nearly 4% in the outgoing fiscal year on the back of a healthy momentum in all main sectors. The unexpected economic activity beats expectations of the government and the international financial institutions by a wide margin. The provisional GDP growth rate of 3.94% is almost double than the official target of 2.1%. It was a surprise even for State Bank of Pakistan and the Ministry of Finance which initially termed the figure unrealistically high during a meeting convened to approve the growth figure. The 3.94% growth rate was higher than SBP's estimates of 3% and IMF's projection of 2% for the fiscal year. The World Bank, too, had predicted a GDP growth rate of no more than 1.3%.

The country's economic outlook moving into next fiscal year will depend on managing current account deficit, implementation of consistent economic policies and well-aligned monetary and fiscal policies as well as on the length and depth of the COVID-19 impacts. Third wave of COVID-19 will further worsen the meltdown of the economy; although gravity of the situation has subsided after vaccines have been introduced in the system.

While containing inflationary pressure, key challenge for current regime would be to have a balance between growth and stability in such a way that monetary policy tools provide much needed support to economic growth. However, it still raises the question whether FBR's revenue target of Rs.5.9 trillion will impose inflationary pressure, while raise in tax rate will put more pressure on those sectors which are already contributing significantly. This can lead to more unemployment in the coming fiscal year until and unless government widens its tax base.

With the third-round effect of COVID-19 across the globe, it is likely to be a tough time for Pakistan's exporters. For the current year, trade deficit was projected at slightly over $19 billion, which has already been surpassed by $8.4 billion till May. The exports are estimated to grow by only 5.3% to $26.8

billion in the next fiscal year, as the Planning Commission has assessed that Pakistan's exporters will be facing challenging domestic and external environment. The growth in imports will be 9.5% and it will almost be double than exports in the next fiscal year, as the imports payments are projected over $55 billion. As a result, trade deficit is projected at 7.1% of GDP while current account deficit is projected at 0.7% of GDP in 2021-22.

The government plans to get additional revenues of Rs350 billion in the upcoming budget through abolishing Income Tax and Sales Tax exemptions and improved administrative measures in order to materialize the FBR's desired target of Rs5.9 trillion. With nominal growth of 13.2 % including real GDP growth rate of 4.8% and inflation at 8.2%, the FBR revenues could only increase to Rs5,320 billion. The remaining Rs643 billion will have to be collected probably through further abolishing tax exemptions, and upward adjustment in taxes in a few selected cases, which will translate ultimately to the inflationary pressure which is not a good sign for the economy which has just came out of deep recession.

A balanced fiscal and monetary policy will be needed to support economic growth. Furthermore the economic growth target is subject to favorable weather conditions, vaccination drive to reach maximum population and easing of Covid-related restrictions before the end of first half of next fiscal year.

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TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

OFFICES IN PAKISTAN

Karachi Address:

Office no. 408, 4th Floor, CTC Building, Clifton Block-8, Karachi

Tel #: +92 21 3530 3293-6

Islambad Address:

144, 1st Floor, Street No.82

Sector E-11 / 2 FECHS

Islamabad 44000,

Tel #: +92 51-835 1551

Lahore Address:

202-E, 2nd Floor, Sadiq Plaza 69-The Mall Road, Lahore

Tel #: +92 42 3628 0403