TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

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HIGHLIGHTS:

- The State Bank of Pakistan (SBP) has decided to increase the benchmark policy rate at 7.25% in its Monetary Policy Committee (MPC) meeting for the next two months. "Economic growth in FY22 is now expected towards the upper end of the forecast range of 4-5%, notwithstanding some greater uncertainty concerning spillovers from the evolving situation in Afghanistan," Says SBP in its latest bi-monthly Monetary Policy Statement.
- The State Bank of Pakistan injected $1.2 billion into the inter-bank market to defend the rupee in the ongoing FY22, despite that it is not preventing the local currency from falling to a historic low level against the greenback. It maintained a downturn since it touched a 22-month high of Rs152.27 in May 2021, losing a cumulative PKR 16.76 in the past four months till 24th September 2021.
- Pakistan's Large Scale Manufacturing (LSM) growth stood at 2.25% during July 2021 vs. Last year. In the first month of FY22; LSM growth plunged by almost 5% in July 2021 compared to the previous month of June 2021 on M-o-M.
- The Roshan Digital Account's (RDA) inflows of deposits reached $2.114 billion in August 2021.
- According to the SBP, on M-o-M basis, Pakistan's Overseas Worker's Remittances plunged by 1.83% from $2.66 billion in August 2021 from $2.71 billion in July 2021.
- According to official statistics, FBR has collected tax revenue of PKR 850 billion in the first two months of FY22 vs. PKR 603 billion last year. This reflects FBR's tax revenue growth by 41% or PKR 244 billion vs. the same period last year.
- The foreign currency reserves held by the SBP, after accounting for debt repayments were recorded at $19.54 billion at the end period of 17th Sept. Decline by $479 million compared with $20.02 billion last week.
- The Broad Money (M2) stock from 1st of July to 17th Sept 2021 stood at a negative of PKR 231 billion vs. negative of PKR 156 billion last year.
- According to the Pakistan Bureau of Statistics (PBS), CPI inflation surged by 8.40% on a year-on-year basis in July 2021 vs. 8.20% last year.
- According to the PBS, the country's exports plunged by almost 4% to $2.24 billion in August 2021 vs. $2.34 billion in July 2021 on a month-on-month basis.
- During July-Aug FY22, Pakistan's net FDI depreciated by 20.29% ($52 million) to $203 million provisional as compared to $255 million same periods last year.
- According to SBP, the total Foreign Investment of the country has increased to $1,645 million during July-Aug FY22 compared to $119 million last year.
- The country posted a Current account deficit in the first two months of FY22 which stood at $2.3 billion.

The outlook of the economy of Pakistan is as follows;

➢ ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM	July	↓	2.25%	5.02%
Total Debt and Liabilities	June	↑	PKR 47.82 Trillion	PKR 44.59 Trillion
Credit to Private Sector	Jul – 10th Sept	↑	PKR (73.3) Billion	PKR (162) Billion
Roshan Digital Account	Sept – Aug	↑	US$ 2,114 Million	-
Worker's Remittances	August	↑	US $2.66 Billion	$2.10 Billion
Currency in Circulation	As of 10th Sept	↑	PKR 7.18 Trillion	PKR 6.28 Trillion
Net Government Sector borrowing	Jul – 10th Sept	↓	PKR (10.19) Billion	PKR (107) Billion
National CPI (Base Year 2015-16)	August	↑	8.40%	8.20%
FBR Tax Collection	Jul-Aug	↑	PKR 850 Billion	PKR 603 Billion
Foreign Exchange Reserves with SBP	20th Aug	↑	$17.58 Billion	$12.64 Billion
Foreign Direct Investments	Jul-Aug	↓	$203 Million	$255 Million
Trade Deficit in Goods	Jul-Aug	↑	US$ (7.49) Billion	US$ (3.41) Billion
Current Account Deficit	Jul-Aug	↑	$(2,290) Million	$838 Million

1. LARGE SCALE MANUFACTURING:

According to "PBS", Pakistan's Large-Scale Manufacturing (LSM) grew by only 2.25% in July 2021 on a year-on-year basis vs. July 2020. However, on a month-on-month basis, LSM contracting by 4.9%, following the decline since January 2021 and the lowest industrial index in the past ten months. Of course, the low base is gradually moving out of play; and in the case of July 2021, the reverse may be true. There are clear signs the large-scale industrial activity is nowhere near peaking, there is still the impact of partial lockdowns in July numbers, and therefore not much must be read into it.

Out of 15 industries that are part of the LSM segment, 11 posted a surge in production during the starting two months of FY22. These include textile, Food, beverages and tobacco, pharmaceuticals, chemicals, electronics, automobiles, leather products iron and steel products, engineering products, and fertilizer. However, the output in coke and petroleum products, non-metallic mineral products, rubber products, and paper and board decreased during the year under review compared to the preceding year, data from PBS revealed. Sector-wise, production of 11 items under the Oil Companies Advisory Committee (OCAC) fell by 3.57% Y-o-Y in July. The 36 items under the Ministry of Industries and Production rose by 1.40%, while 65 items reported by the provincial bureaus of statistics were up by 5.22%. Cement output also dipped by 10.02% in July even though there is a greater demand following the start of construction activities and an increase in exports.

LSM (%)	Weight	Jul-21	Jun-21	Jul-20	Y-o-Y Growth Impact
Textile	**20.92**	1.24	11.82	1.66	0.35
Food, Beverages & Tobacco	**12.4**	0.55	1.98	25.27	0.09
Coke & Petroleum Products	**5.5**	(3.57)	38.93	18.33	(0.22)
Non-Metallic Mineral Products	**5.4**	(10.44)	32.6	29.01	(1.56)
Iron & Steel Products	**5.4**	11.34	32.93	(11.13)	0.42
Automobiles	**4.6**	44.62	88.91	(24.86)	2.10
Fertilizers	**4.4**	3.52	9.95	(5.08)	0.22
Pharmaceuticals	**3.6**	9.98	10.82	20.46	0.84
Paper & Board	**2.3**	(8.82)	4.89	(4.70)	(0.32)
Electronics	**2**	1.4	10.58	(23.87)	0.05
Chemicals	**1.7**	13.61	24.53	8.54	0.36
Leather Products	**0.9**	11.72	24.35	(44.85)	0.10
Engineering Products	**0.4**	5.55	5.12	(43.13)	0.01
Rubber Products	**0.3**	(33.53)	(25.39)	3.07	(0.18)
Wood Products	**0.6**	24.2	(53.73)	(70.54)	0.00
LSM Growth for July 2021 (Y/Y)					**2.25%**
LSM Growth for July 2021 vs. June 2021(M/M)					**(4.91%)**

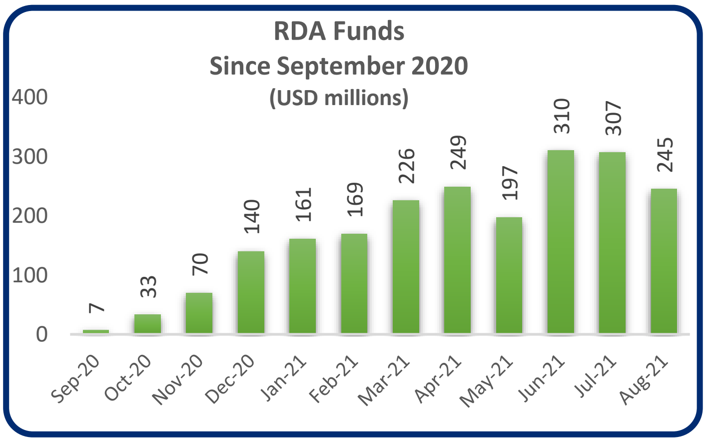
(Source: PBS)

2. ROSHAN DIGITAL ACCOUNT (RDA):

"Cumulative deposit inflows under the RDA clocked in at $2,114 billion during the first year. Out of the $2,114 million, over two-thirds, $1,475 million, have been invested in Naya Pakistan Certificates (NPCs). Some 220,806 accounts have been opened from 175 countries during the 12 months.

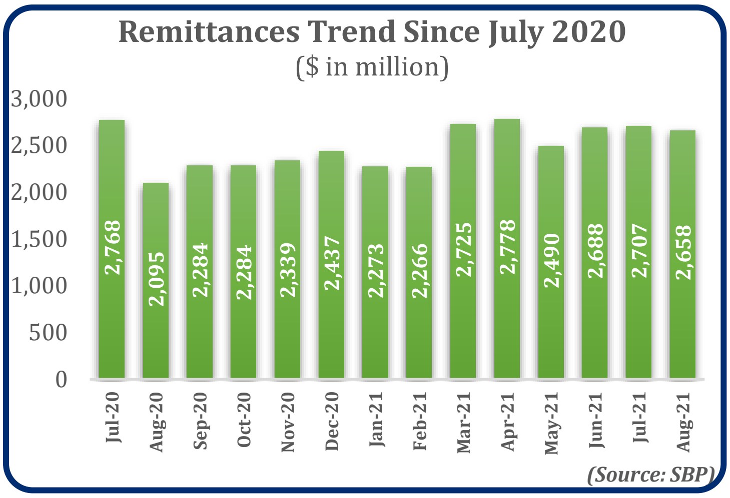
Roshan Digital Account (USD in Millions)	Cumulative Position	Aug-21	Jul-21
	(Provisional)		
Funds Received	**2,114**	**245**	**307**
Naya Pakistan Certificates	**1,475**	**197**	**228**
Conventional	869	106	142
Islamic	606	91	86
Others	**618**	**45**	**77**
Stock Exchange	**21**	**3**	**2**

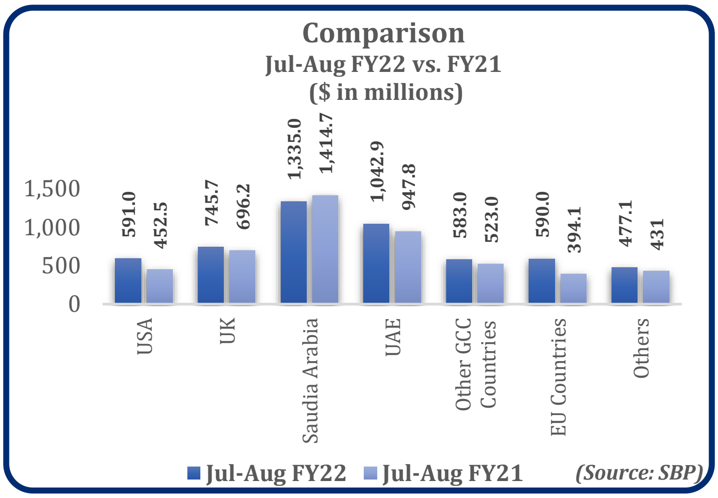
(Source: SBP)



3. WORKER'S REMITTANCES:

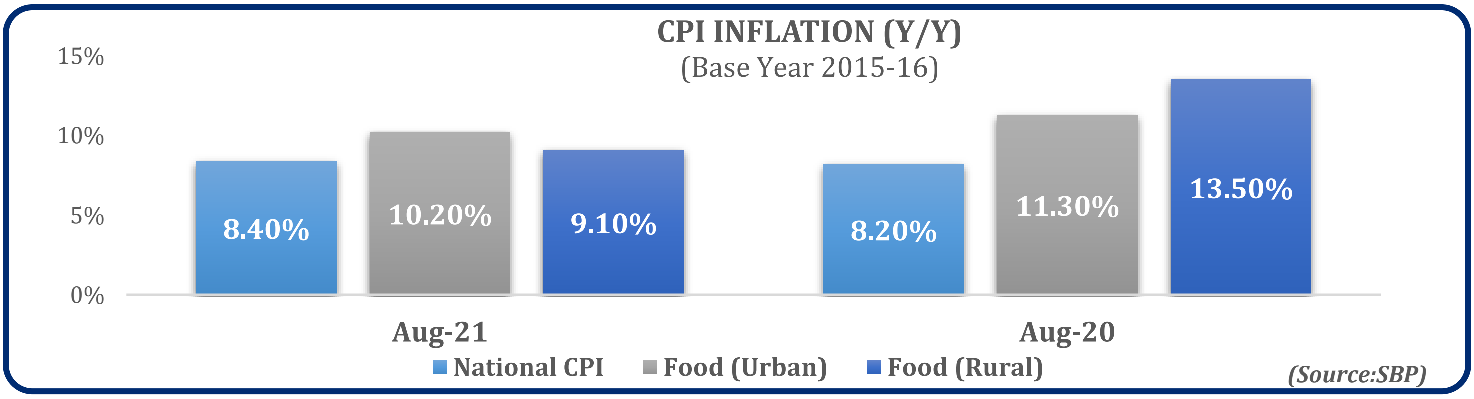
According to the SBP, Pakistan's Overseas Worker's Remittances plunged by 1.83% to $2.66 billion in August 2021 vs. $2.71 billion in July 2021 on M-o-M basis reflecting the usual post-Eid slowdown. By contrast, on a cumulative basis, inflows surged by 10.40% to $5.36 billion in July-Aug FY22 compared to $4.86 billion received a year ago in the same period. This is the sixth consecutive month when inflows recorded around $2.7 billion on average, and for fifteen straight months they have been above $2 billion, making the much-needed finances available to offset the deterioration in the trade deficit. Our descriptive analysis revealed that remittances inflows during the month of August 2021 were mainly sourced from four major territories including Saudi Arabia, UAE, UK, and the USA. With a 26.12% share in overall home remittances inflows, Saudi Arabia remained the largest contributor. Remittances inflow from Saudi Arabia surged by 8.34% to $694 million in August 2021 on a M-o-M basis. Some $279 million arrived from the US, showing a decline of nearly 3.5%. Worker remittances from the UK also plunged by 10.21%. While UAE remittance growth stood at a negative of 3.46%. Pakistan received remittances that amounted to $353 million from the UK and $512 million from the UAE in August 2021. Last month, the government took some measures to attract more remittances in the current fiscal year. The Economic Coordination Committee of the cabinet approved a budgeted subsidy of Rs13.10 billion for a reward scheme to sustain foreign remittances, RDA is also a part of this subsidy scheme. However, remittances might be slow down as concerns remain there in case of international flights were fully resumed.



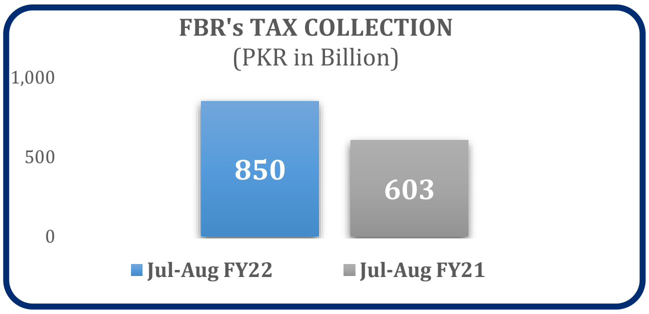


4. CONSUMER PRICE INDEX ("CPI") INFLATION:

National CPI inflation clocked at 8.4% in August 2021 on a year-on-year basis, strikingly similar to the previous month. The pace of inflation is marginally better than the expected 9% prediction of the Ministry of Finance. Likewise, food inflation has stayed in single digit, however perishable food items clock at double-digit. On monthly basis, the National CPI grew by 0.6%. Similarly, Food inflation, urban and rural both rose by 0.5% and 0.8% respectively vs. July 2021. It is essentially due to parity depreciation that driven the cost of every commodity including wheat, sugar, cooking oil, crude oil, and raw material for industries.



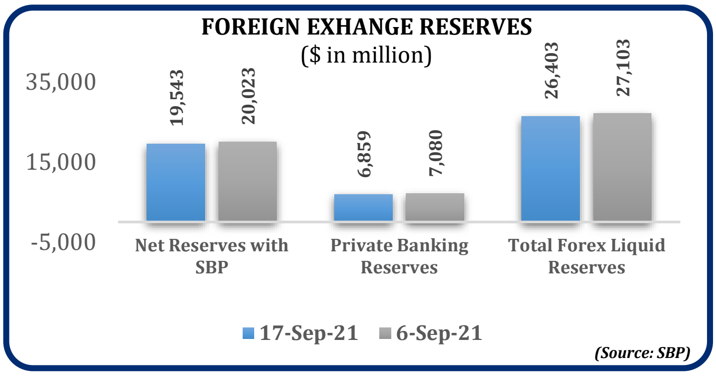
5. TAX REVENUE COLLECTION:



According to FBR's official statistics, FBR provisionally collected tax revenue of PKR 434 billion in August 2021 vs. PKR 300 billion in the same period last year; proclaimed a rise of 45%. In the period Jul-Aug FY22, FBR's tax revenue grew by almost 41% or PKR 244 billion vs. last year. Whereas, FBR surpasses its July-August tax revenue target of PKR 690 billion by 23.18% reflecting an increase of 160 billion rupees. Out of the PKR 850 Billion, the income tax collection stood at Rs254 billion, Sales tax collection, FED, and customs duty stood at 410, 46, and 140 billion rupees respectively. While 55% of total revenues were collected at the import stage, which was reflected as a sign of a rise in commodity prices. The share of Indirect taxes is 68% such a low share of direct taxes means the general public is paying the price of growth while the taxable gentry continues to enjoy tax exemptions.

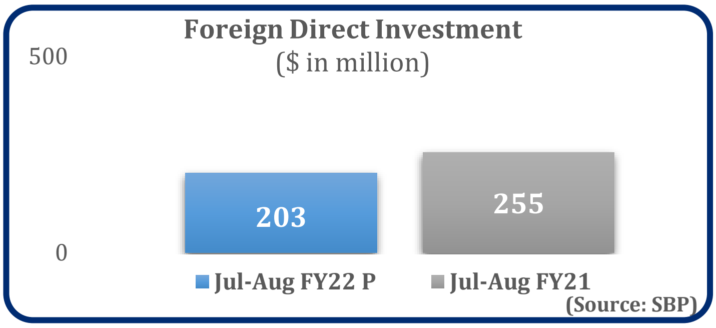
6. FOREIGN EXCHANGE RESERVES:

SBP reserves stood at $19.54 billion as of 17th September 2021. On a weekly basis, the country's forex reserves had been declining by $479 million or 2.4% from $20.02 billion in the previous week. “The decrease came on the back of external debt repayments," says SBP. Earlier on August 27, the foreign exchange reserves held by the SBP soared to an all-time high of $20.15 billion after Pakistan received a general allocation of worth $2,751.8 million from the IMF.

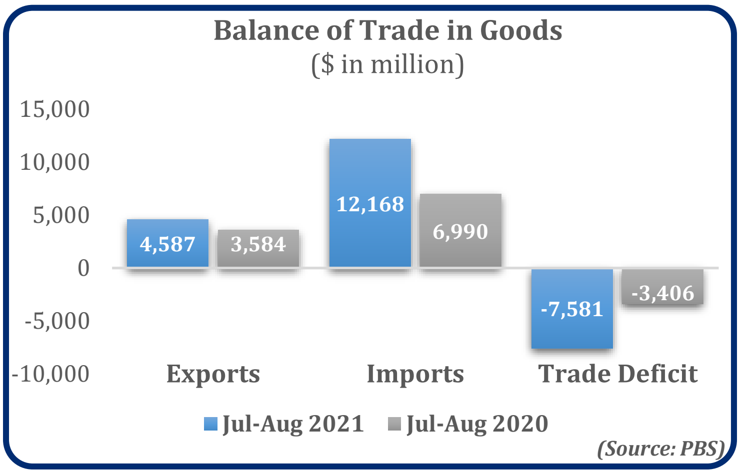


7. FOREIGN DIRECT INVESTMENT:

Pakistan’s net FDI depreciated by 10.27% or $13 million to $113 million provisional in August 2021 as compared to $126 million last year. According to SBP, the total Foreign Investment of the country has increased to $1,645 million during July-Aug FY22 compared to $119.2 million same periods last year. While on a Y-o-Y basis, it plunged by 36.59% to $74 million in August 2021 vs. $117 million in August 2020.



8. BALANCE OF TRADE IN GOODS:



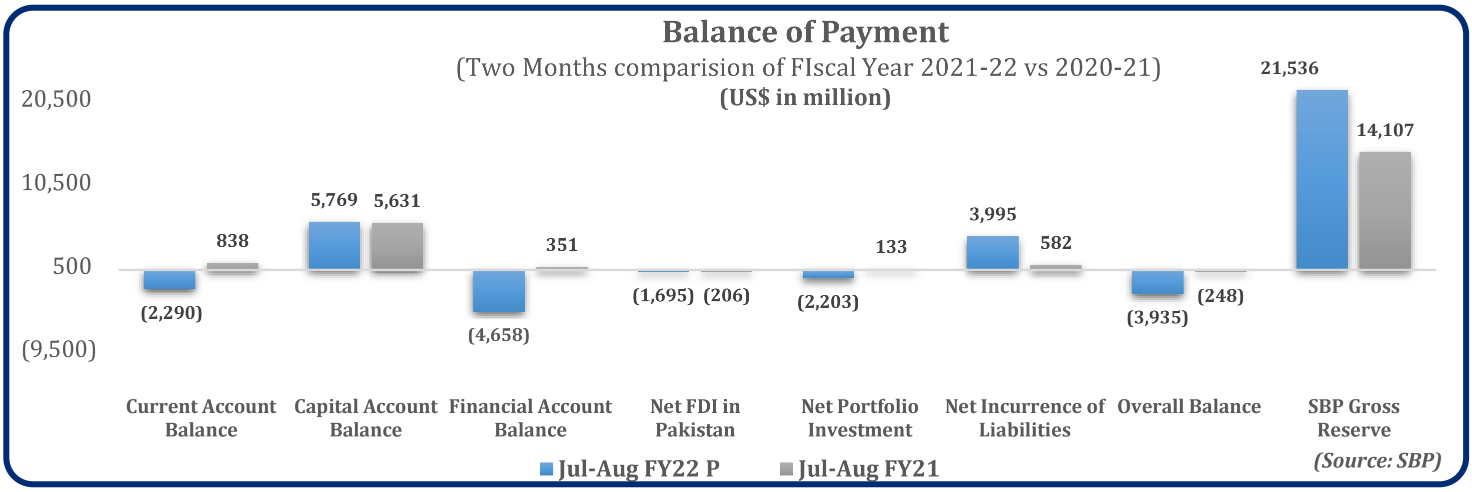
According to the PBS, the country’s Trade deficit widened 122.6% to $7.58 billion in the first two months of FY22 after imports saw a new historic peak. On a M-o-M basis, exports plunged by almost 4% vs. July 2021 for the third successive month despite heavy subsidies being given to exporters and historic currency devaluation. In absolute terms exports plunged by 92 million to $2.248 billion in August 2021 vs. $2.34 billion in July 2021. However, the country's trade deficit widened by 34.31% to $4.34 billion during August 2021 compared to $3.24 billion vs. July 2021, says PBS. While on a Y-o-Y basis, it is appreciated by 41.92% vs. $1.58 billion in the same month of last fiscal year.

9. BALANCE OF PAYMENT:

Pakistan’s Current Account Deficit (CAD) remained elevated at $2.3 billion in the first two months of FY22 compared to a surplus of $838 million in the same period last year. Ironically, a cumulative deficit of $2.3 billion in July-August FY22, which equals to 100% of the annual CAD projection given in the Annual Plan 2021-22 by the Ministry of Planning and Development. Whereas, the August deficit alone stood at $1.5 billion shows CAD is slipping away. This also reflects badly on the government that cannot make practical macroeconomic estimates. Pakistan's economy heavily relies on imported goods to meet local demand across the board

($ in millions)	August 2021 (Provisional)	July 2021 (Revised)
Current account Balance	(1,476)	(814)
Capital Account Balance	9	19
Financial Account Balance	(3,670)	(1,295)
Net FDI in Pakistan	(111)	(96)
Net Portfolio investment	39	(990)
Net incurrence of Liabilities	3,791	204
Overall Balance	(2,309)	(533)
SBP Gross Reserve	21,536	19,253

including raw material for industrial and agricultural outputs, energy (oil and gas), foods (cooking oil, wheat, and sugar), and plant and machinery for industrialization. The imports bill jumped to $11.41 billion in the first two months compared to $6.80 billion in the same period of FY22. Exports also increased, but not very significantly, to $4.6 billion in July-Aug FY22 compared to $3.40 billion in the same period last year.



10. OUTLOOK:

- SBP launched the Roshan Apna Ghar scheme last week in August 2021. Programme will enable non-resident Pakistanis to acquire properties in their home country, they can now easily buy or obtain financing from the comfort of their homes abroad without the need to visit a bank branch.
- SBP revises Prudential Regulations (PRs) to put a brake on soaring import bills & demand growth. As per amendments, the maximum tenure of auto finance has been reduced from seven to five years. Secondly, used imported vehicles will not be eligible for auto financing from banks/DFIs.
- FDI in Pakistan is more diverted to few sectors while other sectors have been ticking the box for minimal contribution. Numbers fail to show any progress, although Government saying that they are focusing on export-oriented FDI. Need of the hour is that government has to change the perspective, there is a need to target efficiency-seeking FDI.
- Pakistan and the IMF are expected to begin programme review talks from October 4, successful conclusion of the talks would facilitate immediate disbursements of $1 billion by the IMF. However, this review is likely to be more problematic due to the lack of implementation of some prior actions and structural benchmarks. Therefore, the question is how much flexibility will be shown in the negotiations. Has the Government prepared a fallback strategy if the negotiations flounder?
- Looking ahead, Economy's production based on import, it leads to huge CAD which causes the devaluation of rupees which ultimately seeds the hike in rate of inflation. "The inflation outlook largely depends on the path of domestic demand and administered prices, notably fuel and electricity, as well as global commodity prices", says SBP.
- Overall, the economy is beginning to overheat in the face of greater insecurity in the external sector. Despite exceptionally foreign exchange reserves with the SBP, the rupee value reducing since May 2021. The Real Effective Exchange rate (REER) decrease to 97 base points, despite that Pakistan's total export of goods is stagnant at $2.2 billion on monthly basis. Highlighting the cost of expansionary policies without fixing the structural economic flaws.
- The next few weeks are crucial in terms of developments in Afghanistan and the outcome in the sixth review by the IMF.