TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

PAKONOMICS
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HIGHLIGHTS:

- The Global lending agency International Monetary Fund (IMF) forecasted Pakistan's GDP to grow at a pace of 4% in the Fiscal year 2021-22 ("FY22"). Moreover, the current account deficit (CAD), average rate of inflation and unemployment has been predicted at 3.1%, 8.5%, and 4.8% respectively.
- In the Inter-bank market, the PKR continues its declining trend against the US dollar, reaching a lower level of 174.42 rupees against one US dollar on 25th October, as per the exchange rate of the State Bank of Pakistan ("SBP"). Moreover, an expansion in foreign payments, slumping financial condition in Afghanistan, and increasing prices of global goods have further added to the woes of the dwindling performance of the domestic currency.
- Pakistan's Large-Scale Manufacturing ("LSM") growth stood at 12.74% during August 2021 vs. last year. In the second month of FY22 the LSM growth increased by 2.09% in August 2021 compared to the previous month of July 2021 on a Month-on-Month Basis ("M-o-M").
- The inflows of deposits in the Roshan Digital Accounts ("RDA") reached $2.411 billion in September 2021.
- According to the SBP, remittances sent by Overseas Pakistani workers increased by only 0.46% on a M-o-M basis to $2.67 billion in September 2021 from $2.66 billion in August 2021.
- According to official statistics, the Federal Board of Revenue ("FBR") has collected tax revenue worth PKR 1,395 billion in the first quarter of FY22 vs. PKR 1,011 billion last year. This reflects a growth of 38% or PKR 384 billion in the tax revenue collection of the FY22Q1 vs. the same period last year.
- The foreign currency reserves held by the SBP stood at $17.49 billion as of 15th October 2021. Accounting after international Sukuk $1billion repayments, reserves decline by $1.65 billion compared with $19.14 billion in the week prior to 15th October 2021. .
- The Broad Money (M2) stock from 1st of July to 15th October 2021 stood at a negative of PKR 190 billion vs. negative of PKR 158 billion last year.
- According to the Pakistan Bureau of Statistics (PBS), the CPI inflation surged by 9.00% on a year-on-year ("Y-o-Y") basis in September 2021 vs. 9.00% last year.
- According to the PBS, the country's exports rose by almost 28% to $2.41 billion in September 2021 vs. $2.24 billion in August 2021 on a M-o-M basis.
- During July-Sept FY22, Pakistan's net FDI depreciated by 4% ($18.5 million) to provisionally $439 million as compared to $458 million the same period last year.
- As per the SBP, the total Foreign Investment of the country has increased to $1,319 million during FY22Q1 compared to $312 million last year.
- The country posted a Current account deficit in the FY22Q1 which stood at $3.4 billion.

The outlook of the economy of Pakistan is as follows;

➢ ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM	**August**	↑	**12.74%**	**1.19%**
Total Debt and Liabilities	**June**	↑	**PKR 47.82 Trillion**	**PKR 44.59 Trillion**
Credit to Private Sector	**Jul – 8th Oct**	↑	**PKR 137 Billion**	**PKR (132) Billion**
Roshan Digital Account	**September**	↑	**US$ 2,411 Million**	**US$ 7 Million**
Worker's Remittances	**September**	↑	**US $2.67 Billion**	**$2.66 Billion**
Currency in Circulation	**As of 8th Oct**	↑	**PKR 7.18 Trillion**	**PKR 6.24 Trillion**
Net Government Sector borrowing	**Jul – 8th Oct**	↓	**PKR (264) Billion**	**PKR 279 Billion**
National CPI (Base Year 2015-16)	**August**	-	**9.00%**	**9.00%**
FBR Tax Collection	**Jul-Sept**	↑	**PKR 1,395 Billion**	**PKR 1,011 Billion**
Foreign Exchange Reserves with SBP	**As of 15th Oct**	↑	**$17.49 Billion**	**$12.64 Billion**
Foreign Direct Investments	**Jul-Sept**	↓	**$439 Million**	**$458 Million**
Trade Deficit in Goods	**Jul-Sept**	↑	**US$ (11.66) Billion**	**US$ (5.81) Billion**
Current Account Deficit	**Jul-Sept**	↑	**$(3,400) Million**	**$856 Million**

1. LARGE SCALE MANUFACTURING:

As per the PBS, Pakistan's Large-Scale Manufacturing (LSM) grew by 12.74% in August 2021 on a Y-o-Y basis vs. August 2020. However, the LSM index is still relatively low when compared to pre COVID levels. On a M-o-M basis, overall output rise by only 2.09%. There are clear signs the large-scale industrial activity is nowhere near peaking and that there is still the impact of partial lockdowns present in the numbers of July numbers, hence, not much should be read into it.

Out of 15 industries that are part of the LSM segment, 12 posted a surge in production during the first two months of FY22. These include textile, Food, beverages and tobacco, coke and petroleum products, non-metallic mineral products, iron and steel products, automobiles, pharmaceuticals, paper and board, chemicals, leather products, engineering products, and wood products. However, the output in fertilizers, electronics, and rubber products has contracted during first quarter of the ongoing year under review, compared to the preceding year, data from the PBS revealed. Although, on 11th October 2021 h, The Economic Coordination Committee (ECC) approved more gas to Pak Arab and FFBQL two major fertilizer industries to meet the domestic demand for urea and to curb import.

Sector-wise, production of 11 items under the Oil Companies Advisory Committee (OCAC) mounted by 2.35% Y-o-Y in July-August FY22, whilst when it is comparative to August 2020 it surged at a rate of 8.83% in August 2021. The 36 items under the Ministry of Industries and Production rose by 6.72%, in which Cement output also rose by 4.0% in the period of July-August 2021 because of a slight rise in demand of cement following the start of construction activities and an increase in exports.

LSM (%)	Weight	August-21	July-21	August -20	July-August 2021-22	Y/Y growth Cumulative
Textile	**20.92**	1.62	1.24	2.03	1.43	**0.42**
Food, Beverages & Tobacco	**12.4**	13.04	0.55	4.99	6.74	**1.09**
Coke & Petroleum Products	**5.5**	8.83	(3.57)	(5.19)	2.35	**0.14**
Non-Metallic Mineral Products	**5.4**	22.73	(10.44)	15.87	3.72	**0.50**
Iron & Steel Products	**5.4**	17.36	11.34	(9.64)	14.34	**0.56**
Automobiles	**4.6**	68.01	44.62	(13.96)	55.33	**2.60**
Fertilizers	**4.44**	(4.88)	3.52	3.47	(0.87)	**(0.06)**
Pharmaceuticals	**3.6**	29.29	9.98	(0.63)	18.67	**1.48**
Paper & Board	**2.3**	30.32	(8.82)	(1.81)	10.37	**0.39**
Electronics	**2**	(4.82)	1.4	(23.64)	(1.23)	**(0.04)**
Chemicals	**1.7**	4.02	13.61	13.15	6.36	**0.18**
Leather Products	**0.9**	28.89	11.72	(48.44)	20.21	**0.17**
Engineering Products	**0.4**	4.39	5.55	(33.14)	6.00	**0.01**
Rubber Products	**0.3**	(27.97)	(33.53)	6.45	(30.81)	**(0.17)**
Wood Products	**0.6**	8.61	24.2	(70.36)	15.81	**0.00**
LSM Growth for August 2021 (Y/Y)						**12.74%**
LSM Growth for Aug 2021 vs. July 2021(M/M)						**2.09%**
LSM Growth for July-August 2021 (Y/Y)						**7.26%**

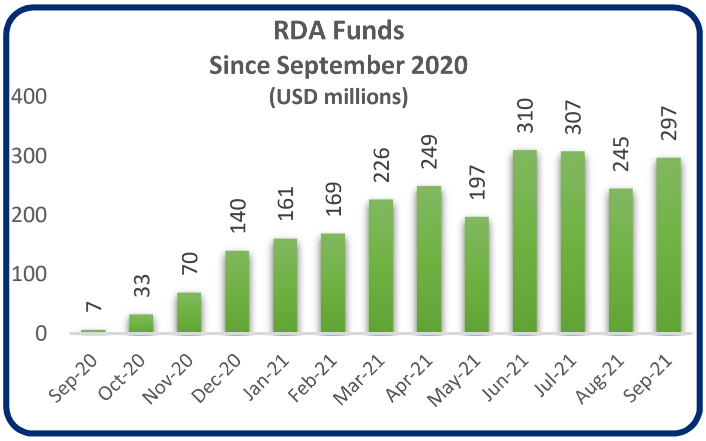
(Source: PBS)

2. ROSHAN DIGITAL ACCOUNT (RDA):

The cumulative inflows of deposits under the RDA amount to $2.41 billion since its announcement in September 2020. Out of the $2.41 billion, over two-thirds, $1.66 billion or 69% have been invested in Naya Pakistan Certificates (NPCs). Some 248,723 accounts have been opened from 175 countries during the 13 months.

Roshan Digital Account (USD in Millions)	Cumulative Position	Sept-21	Aug-21
	(Provisional)		
Funds Received	2,411	297	245
Naya Pakistan Certificates	1,660	185	197
Conventional	962	93	106
Islamic	698	92	91
Others	726	108	45
Stock Exchange	25	4	3

(Source: SBP)

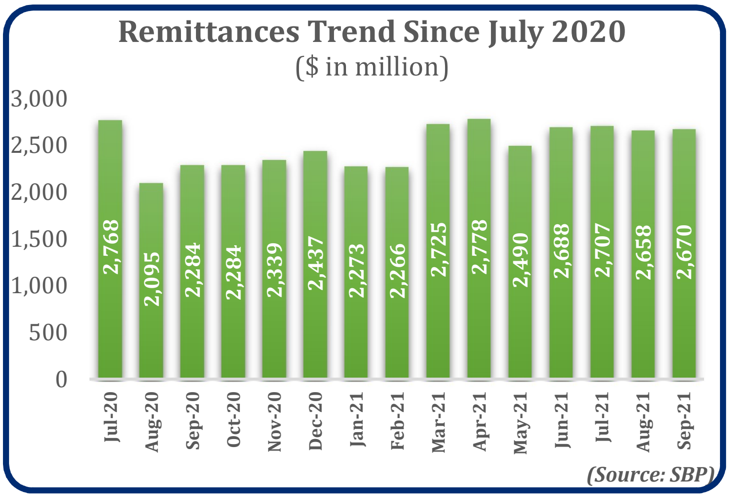


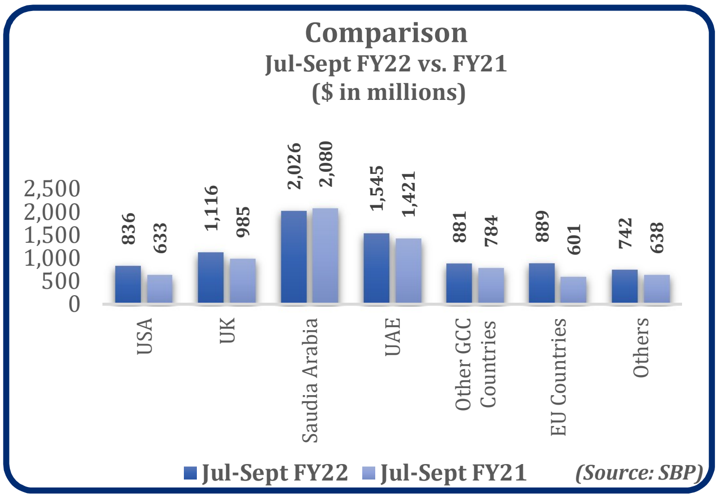
3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers surged by only 0.46% to $2.67 billion in September 2021 vs. $2.66 billion in August 2021. By contrast, in the first quarter of FY22, inflows surged by 12.47%

to $8.03 billion compared to $7.14 billion received a year ago in the same period. This is the sixth straight successive month when inflows were recorded around $2.5 to 2.7 billion on average, and for fifteen consecutive months they have been above $2 billion, making the much-needed finances available to offset the deterioration in the CAD. A descriptive analysis revealed that remittances inflows during the month of September 2021 were mainly coming from four major territories: Saudi Arabia, UAE, UK, and the USA. With a 25% share in overall home remittances flows, Saudi Arabia remained a significant contributor.

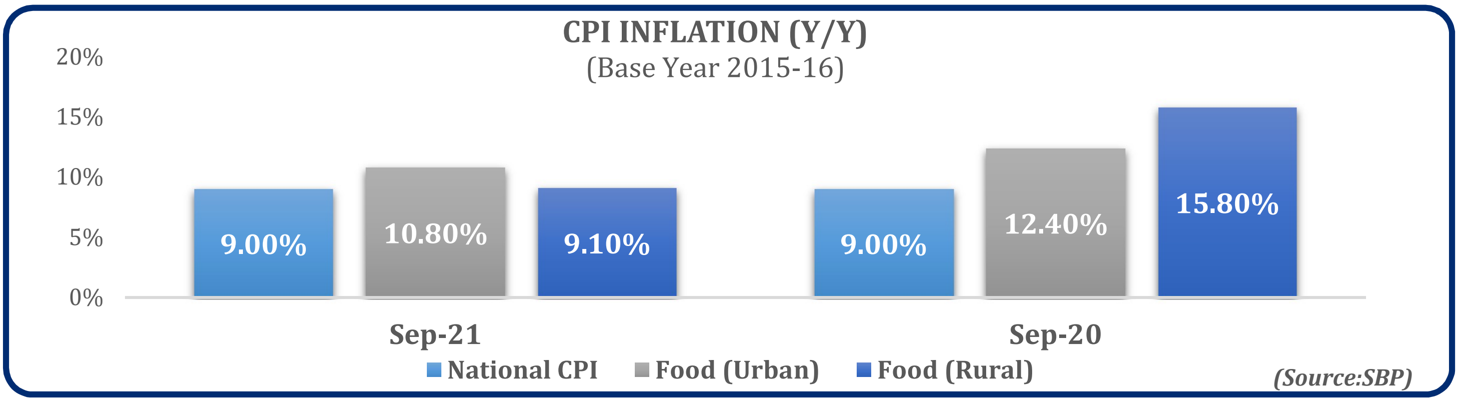
However, inflow from Saudi Arabia declined by 2.62% to $2.03 billion in FY22Q1 vs 2.08 billion in FY21Q1. Same as $836 million or a 10.4% share arrived from the US, showing a rise of 10% in FY22Q1 vs. same period last year. Worker remittances from the UK also increased by 13% and contributed at almost 14% or 1.12 billion in FY22Q1. Likewise, from UAE remittance growth stood at 8.7% while its share is $1.54 billion or 19% in total remittances. Estimation shows that the robust growth in home remittances at the same momentum will lift the economy to cross the projected tally of $31.257 billion for FY22. It seems that the initiative of ECC might be working in which they announced a subsidy of PKR 13.10 billion to uplift remittances. Despite that International flight could be a big blow for remittances in coming months.



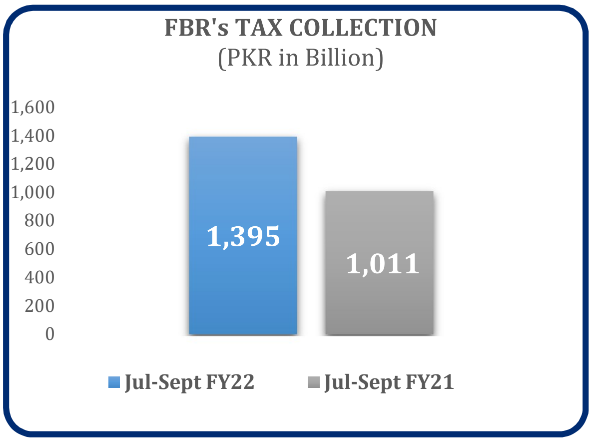


4. CONSUMER PRICE INDEX ("CPI") INFLATION:

National CPI inflation clocked at 9.0% in September 2021 on a Y-o-Y basis, strikingly similar to the same month of FY21. However, the actual pace of inflation will be marginally observed in the next month due to extraordinary rise in Whole price index (WPI) which stood at 19.6% on Y-o-Y basis. Similarly, food inflation is still in double digit. On a monthly basis, the National CPI grew by 2.1%. Similarly, Food inflation, urban and rural both rose by 3.6% and 3.5% respectively vs. August 2021. It is essentially due to the depreciation of the PKR, that has driven up the cost of every commodity including wheat, sugar, cooking oil, crude oil, and raw material for industries.



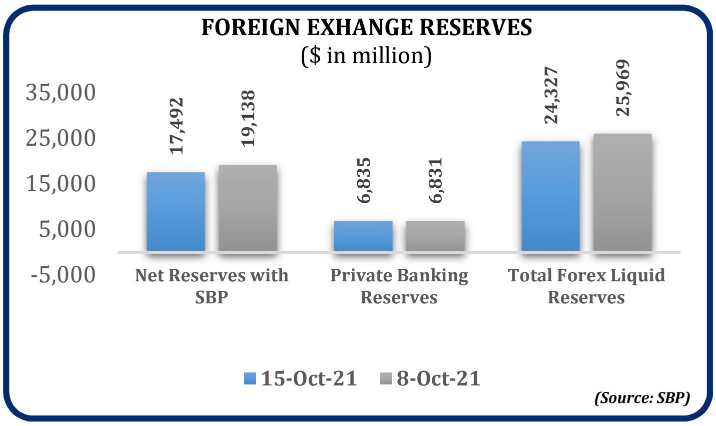
5. TAX REVENUE COLLECTION:



As per the official statistics published by the FBR,, the FBR has provisionally collected tax revenue worth PKR 535 billion in September 2021 vs. PKR 408 billion in the same month last year; announced a rise of 31.13%. In the first quarter of FY22, FBR's tax revenue grew by almost 38% or PKR 384 billion vs. last year. Moreover, the FBR surpassed its first quarter target of PKR 1,211 billion by 15% reflecting an increase of PKR 184 billion. As per Mr. Shahbaz Rana's articled titled "FBR surpasses first quarter tax target" published on 1st of October in the Express Tribune, from total tax collection, PKR 916 Billion is collected from indirect sources having a share of 65.5%, whereas, the income tax collection stood at PKR 481 billion. It was also stated therein that 51% or PKR 718 billion of total revenues were gathered at the import stage.

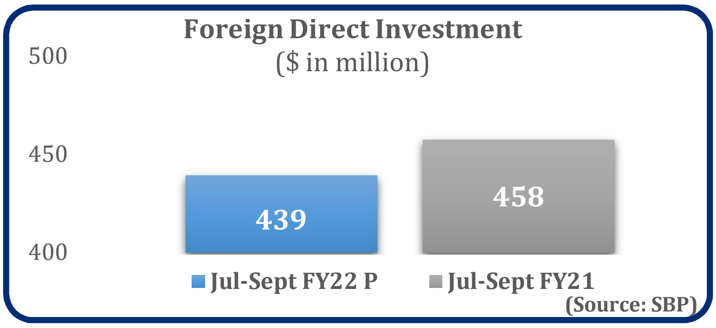
6. FOREIGN EXCHANGE RESERVES:

SBP reserves stood at $17.49 billion as of 15th October 2021. On a weekly basis, the country's forex reserves have declined by $1.6 billion or 8.6% from $19.14 billion in the previous week. "The decrease came on the back of external debt repayments, which includes $1 billion repayment of Pakistan International Sukuk," stated the SBP on 21st of October. Earlier on 27th August 2021, the foreign exchange reserves held by the SBP had soared to an all-time high of $20.15 billion after Pakistan received a general allocation of worth $2.75 billion from the IMF.

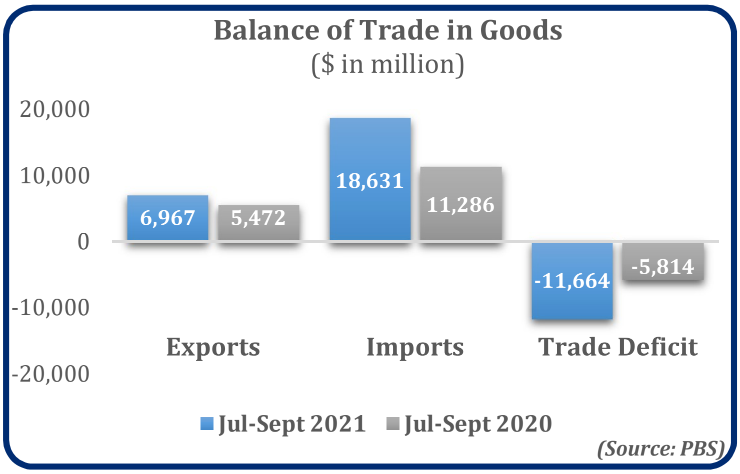


7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI appreciated by 16.37% or $33.2 million to $236 million provisional in September 2021 as compared to $203 million last year. Sector wise, mostly share of Net FDI is in Electricity, gas, and steam which is at 29.74%, while Financial and insurance activities share stood almost at 23%. Acc. to the SBP, the total Foreign Investment of the country has increased to $1,319 million during July-Sept FY22 compared to $312 million same periods last year. While on a Y-o-Y basis, it plunged by 20.10% to $154 million in Sept 2021 vs. $192.5 million in Sept 2020.



8. BALANCE OF TRADE IN GOODS:



As per the PBS, the country's Trade deficit widened by a whopping 102.10% to $11.75 billion in the FY22Q1 after imports saw a new historic peak vs. FY21Q1. Gladly after decline for three consecutive months, exports surged by almost 28% vs. August 2021 on a M-o-M basis. In absolute terms, the exports surged by $163 million to $2.410 billion in September 2021 vs. $2.24 billion in August 2021. However, the country's trade deficit declined by 3.35% to $4.18 billion during September 2021 compared to $4.33 billion vs. August 2021. While on a Y-o-Y basis, it has appreciated by 73% vs. $2.41 billion in the same month of last fiscal year.

9. BALANCE OF PAYMENT:

($ in millions)	July-Sept FY22 P	July-Sept FY21
Current account Balance	(3,400)	856
Capital Account Balance	62	77
Financial Account Balance	(4,658)	(854)
Net FDI in Pakistan	(1,695)	(410)
Net Portfolio investment	2,203	179
Net incurrence of Liabilities	4,504	20
Overall Balance	(3,935)	175
SBP Gross Reserve	20,619	13,504
		(Source: SBP)

Pakistan's CAD remained elevated at $3.40 billion in the first quarter of FY22 compared to a surplus of $865 million in the same period last year. Despite the fact that the Government of Pakistan had intended to reduce the trade deficit, the CAD has exceeded from its projection given in the Annual Plan 2021-22 published by the Ministry of Planning Development. Moreover, the CAD in September alone stood at $1.13 billion reducing 24% on a M-o-M basis. Although it is financed heavily by borrowing which is ultimately reflecting historic height in level of domestic and foreign debt. Recently, Government took decision to support BOP by imposing a 100% cash margin on 114 items import, which will eventually relieve some pressure from the trade account. In the FY22Q1, there is a hike in Brent crude price from $76.33/Barrel in July 2021 to $85.53/barrel to date which reflects in the import bills of Pakistan. Ironically, if we take the era where crude oil price was at $140/Barrel in 2008, the import bills were relatively contained because of the parity rate of the PKR against the US Dollar, which was 83 at the time (USD/PKR).

10. OUTLOOK:

- Objectively viewing the economy of Pakistan, the growth rate and inflation rate projected by the IMF do not seem to reflect the ground realities of the Pakistani economy. It seems the initial recovery of FY21 is likely to perpetuate. Although the projected growth rate of IMF is lower than the targeted growth of 4.8%.
- The figures projected by the IMF seem unrealistic as they have projected the rate of inflation, in the first quarter of the ongoing FY22 average rate of inflation to be 8.6%. A hike in international price, historic rupee devaluation, and shoot-up in energy tariffs are leading towards the conclusion that the expected rate of inflation will be in double digits soon.
- The current round of discussions between the IMF and Pakistan for the release of the $1 billion tranche remain inconclusive. It could be due to the unhealthy economic situation and aging uncertainty towards the future maneuver of the economy. It is the second time that both could not find a way for the completion of the 6th review, as its first endeavor back in June 2021 was also unsuccessful.
- By analyzing the data of the Sensitive price index, which has risen by 1.4% in the 3rd week of October 2021, as compared to 2nd week, it can be said that the same shows the sign of adjustment made on devaluation as well as electricity and POL prices. These increases will make the life of lower income group miserable.
- Looking ahead, we expect rupee dollar to be in the range of 175-180 (USD/PKR) by the end of ongoing fiscal year. Moreover, with the given support, imports might slow down on the back of an expected contractionary fiscal and monetary policy and variation in the market driven exchange rate.