TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

PAKONOMICS

NOVEMBER 2021

Friday, December 24, 2021

www.tolaassociates.com

HIGHLIGHTS:

- The State Bank of Pakistan ("SBP") once again decided to increase the benchmark policy rate for the third straight time. This time, the policy rate was increased by 100 bps (i.e 1%) to from 8.75% to 9.75% in the Monetary Policy Committee meeting.
- In the Inter-bank market, the National currency has depreciated to a historical low of 178 against the US dollar in the month of December 2021, as per the exchange rate of the SBP.
- The rate of inflation target for the Fiscal Year ("FY22") has been revised to 9-11% as per the SBP. Despite having tightened the monetary policy, the rate of inflation keeps on climbing, making living standards vulnerable for most of the people in Pakistan.
- Pakistan's Large-Scale Manufacturing ("LSM") growth stood at a negative of 1.19% during October 2021 vs. last year. In the fourth month of FY22, the LSM growth stood at 1.86% compared to the previous month of September 2021, on a Month-on-Month Basis ("M-o-M").
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $2.92 billion at the end of November 2021.
- As per the SBP, remittances sent by Overseas Pakistani workers declined by 6.59% on a M-o-M basis to $2.35 billion in November 2021, from $2.52 billion in October 2021.
- According to the official statistics, the Federal Board of Revenue ("FBR") has collected tax revenue worth PKR 2,314 billion in Jul-Nov FY22 vs. PKR 1,695 billion last year. This reflects a growth of almost 36.52% or PKR 619 billion in the tax revenue collection in Jul-Nov FY22 vs. the same period last year.
- The foreign currency reserves held by the SBP stood at $16.25 billion as of 19th November 2021. They have declined by $691 million after external debt repayments.
- The Broad Money (M2) stock from 1st of July to 11th December 2021 stood at a negative of PKR 56.13 billion as compared to PKR 468.52 billion last year in same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 11.53% on a year-on-year ("Y-o-Y") basis in November 2021 vs. 8.30% last year.
- Per the the PBS, the Pakistan's exports increased by 17% to $2.88 billion in November 2021 vs. $2.46 billion in October 2021 on a M-o-M basis.
- During July-Nov FY22, Pakistan's net FDI appreciated by 12% or $87.4 million to provisionally $798 million as compared to $710 million in the same period in the previous year.
- As per the SBP, the total Foreign Investment of the country has increased to $455.5 million during Jul-Nov FY22 as compared to $263.4 million in the preceding year.
- The country posted a Current account deficit ("CAD") in the period Jul-Nov of FY22 which is a staggering amount to the tune of $7.09 billion.

The outlook of the economy of Pakistan is as follows;

➢ ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM	**October**	↓	**(1.19%)**	**13.81%**
Total Debt and Liabilities	**As of September 2021**	↑	**PKR 50.48 Trillion**	**PKR 44.84 Trillion**
Credit to Private Sector	**Jul – 10th Dec**	↑	**PKR 512.75 Billion**	**PKR 10.34 Billion**
Roshan Digital Account	**November**	↑	**US$ 239 Million**	**US$ 70 Million**
Worker's Remittances	**November**	↑	**US $2.35 Billion**	**US $2.34 Billion**
Currency in Circulation	**As of 10th Dec**	↑	**PKR 7.23 Trillion**	**PKR 6.38 Trillion**
Net Government Sector borrowing	**Jul – 10th Dec**	↓	**PKR (136) Billion**	**PKR 178 Billion**
National CPI (Base Year 2015-16)	**November**	↑	**11.53%**	**8.30%**
FBR Tax Collection	**Jul-Nov**	↑	**PKR 2,314 Billion**	**PKR 1,695 Billion**
Foreign Exchange Reserves with SBP	**As of 17th Dec**	↑	**$18.15 Billion**	**$13.22 Billion**
Foreign Direct Investments	**Jul-Nov**	↑	**$798 Million**	**$710 Million**
Trade Deficit in Goods	**Jul-Nov**	↑	**US$ (20.59) Billion**	**US$ (9.72) Billion**
Current Account Deficit	**Jul-Nov**	↑	**$(7,089) Million**	**$1,876 Million**

1. LARGE SCALE MANUFACTURING:

As per the PBS, Pakistan's LSM sector decreased by 1.19% in October 2021 on a Y-o-Y basis vs. October 2020. This month, the index is lowest in the FY22, preceded by the highest index in August 2021 (which had registered a 12.74% growth on a Y-o-Y basis). It can clearly be seen that the base effect that had occurred due to COVID has been wiped out. In contrast, on a M-o-M basis, the overall output rose by 1.86% over September 2021. As we had argued in our previous edition of Pakonomics, it seems that the large-scale industrial activity is nowhere near peaking.

Out of the 15 industries that are part of the LSM segment, 11 industries posted a surge in production during the first four months of FY22. These include textile, Food, beverages and tobacco, coke and petroleum products, iron and steel products, automobiles, pharmaceuticals, paper and board, chemicals, leather products, engineering products, and wood products. However, the output in non-metallic mineral products, fertilizers, electronics, and rubber products has decreased during Jul-Oct of the ongoing year under review, compared to the preceding year, data from the PBS revealed.

Sector-wise, production of 11 items under the Oil Companies Advisory Committee ("OCAC") increased by 7.33% Y-o-Y in July-Oct FY22, whilst when it is compared to October 2020, it surged at a rate of 14.75% in October 2021. The 36 items under the Ministry of Industries and Production rose by 3.49%, in which Cement output declined by 2.74% in the period of July-Oct 2021 because of a rise in interest rate by the SBP which lead to big rise in cost of doing business.

LSM (%)	Weight	Oct-21	Sept-21	Oct-20	July-Oct 2021-22	Y/Y growth Cumulative
Textile	**20.92**	0.48	(0.19)	2.37	0.91	**0.26**
Food, Beverages & Tobacco	**12.4**	3.30	(3.17)	8.64	5.15	**0.80**
Coke & Petroleum Products	**5.5**	14.75	9.57	(1.77)	7.33	**0.43**
Non-Metallic Mineral Products	**5.4**	(6.33)	(2.53)	24.53	(2.66)	**(0.40)**
Iron & Steel Products	**5.4**	5.67	12.68	2.76	11.62	**0.45**
Automobiles	**4.6**	22.31	23.72	10.61	37.91	**1.98**
Fertilizers	**4.44**	(6.69)	(6.05)	18.53	(7.23)	**(0.50)**
Pharmaceuticals	**3.6**	(6.33)	(0.63)	14.86	6.55	**0.54**
Paper & Board	**2.3**	4.14	18.21	(2.23)	9.39	**0.36**
Electronics	**2**	(30.17)	(12.60)	(24.31)	(10.92)	**(0.34)**
Chemicals	**1.7**	(0.73)	(0.48)	8.06	3.14	**0.09**
Leather Products	**0.9**	0.61	4.35	(41.70)	10.49	**0.09**
Engineering Products	**0.4**	(5.53)	(2.59)	(25.08)	0.81	**0.00**
Rubber Products	**0.3**	(34.37)	(32.77)	9.31	(32.23)	**(0.18)**
Wood Products	**0.6**	13.23	(12.52)	(67.37)	6.56	**0.00**
LSM Growth for October 2021 (Y/Y)						**(1.19)%**
LSM Growth for Oct 2021 vs. Sept 2021(M/M)						**1.86%**
LSM Growth for July-Oct 2021 (Y/Y)						**3.56%**

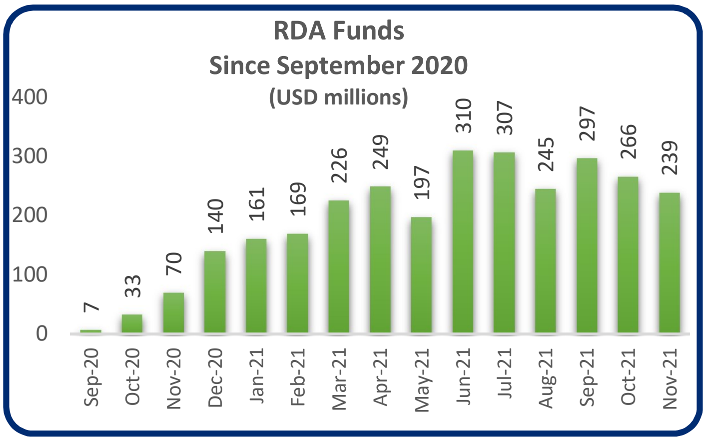
(Source: PBS)

2. ROSHAN DIGITAL ACCOUNT (RDA):

The cumulative inflows of deposits under the RDA, reached $2.91 billion since its announcement in September 2020. Out of the $2.91 billion, over two-thirds, $1.99 billion or 68% have been invested in Naya Pakistan Certificates ("NPCs"). Some 299,676 accounts have been opened from 175 countries during the 15 months.

Roshan Digital Account (USD in Millions)	Cumulative Position	Nov-21	Oct-21
	(Provisional)		
Funds Received	**2,916**	**239**	**266**
Naya Pakistan Certificates	**1,991**	**157**	**174**
Conventional	1,123	71	90
Islamic	868	86	84
Others	**896**	**80**	**90**
Stock Exchange	**29**	**2**	**2**

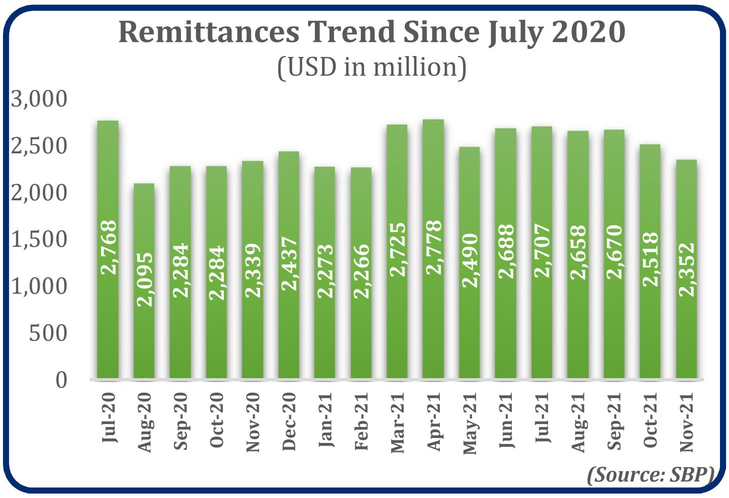
(Source: SBP)

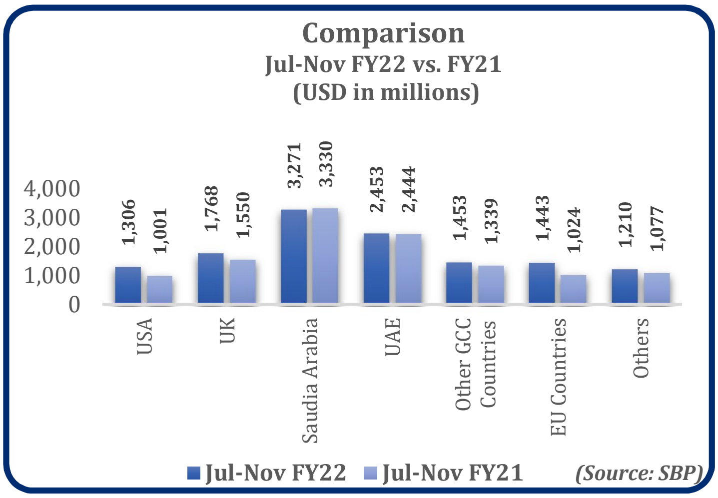


3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers plunged by 6.59% to $2.35 billion in November 2021 vs. $2.52 billion in October 2021. By contrast, in the first five months of FY22, inflows surged by 9.67% to $12.9 billion compared to $11.76 billion received a year ago in the same period. This is the first time remittances are below the $2.5 billion mark in the last eight months - where inflows were recorded around $2.5 billion on average - making the alarming situation more vulnerable, since it is used to offset the deterioration in the CAD. A descriptive analysis revealed that remittances inflows during the month of November 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.

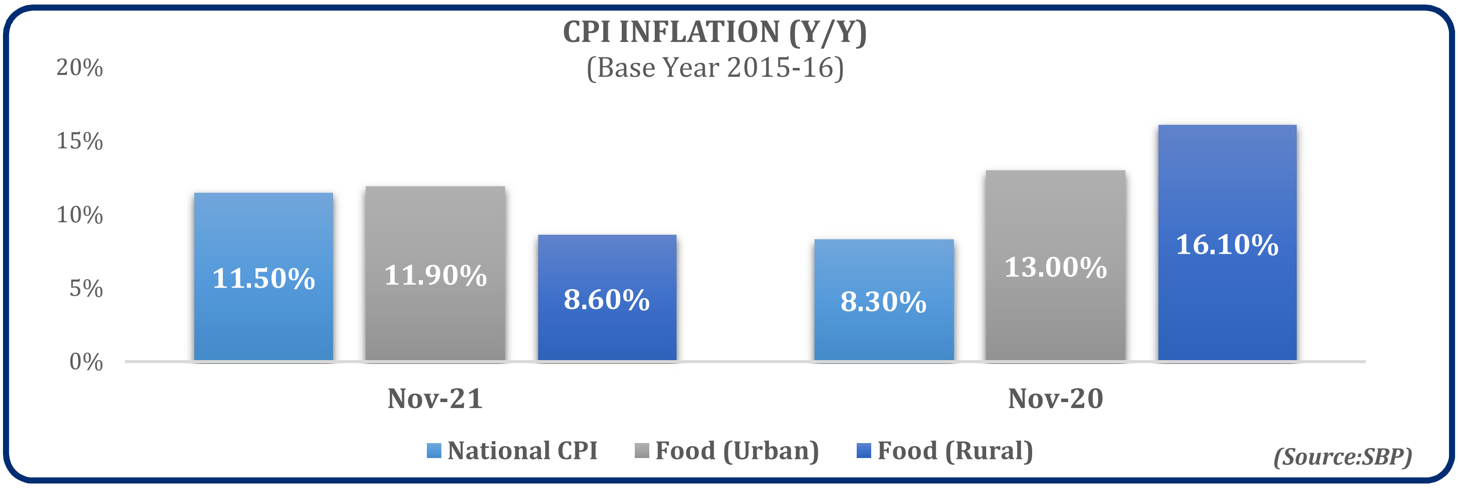
However, inflow from Saudi Arabia declined by 1.77% to $3.27 billion in Jul-Nov FY22 vs. $3.33 billion during the same period in FY21. An amount to the tune of $1.31 billion, or a 10% share, was received from the US, showing a rise of 30% in Jul-Nov FY22 vs. the same period in the previous year. Worker remittances from the UK also increased by 14% and contributed 13% or 1.77 billion in Jul-Nov FY22. Likewise, remittance growth from UAE stood at 0.36% while its share is $2.45 billion or 19% in the total remittances.



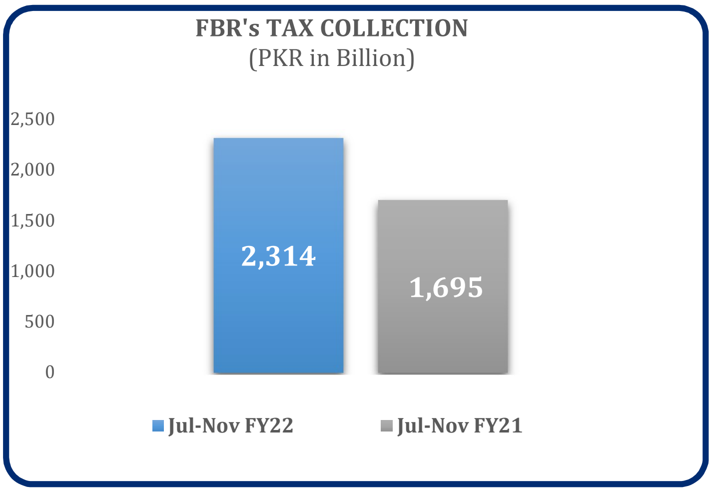


4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation was recorded at 11.50% in November 2021 on a Y-o-Y basis, strikingly higher to the same month of FY21. However, the actual pace of inflation will be marginally observed in the next month due to an extraordinary rise in the Wholesale price index ("WPI") which stood at 27.0% on Y-o-Y basis. On a monthly basis, the National CPI grew by 3.0%. Similarly, Food inflation, urban and rural both rose by 3.9% and 3.3% respectively vs. October 2021. This has essentially occurred due to the depreciation of the PKR that has driven our economy to slumpflation, which means both growth and inflation indicators are worsening at the same time.



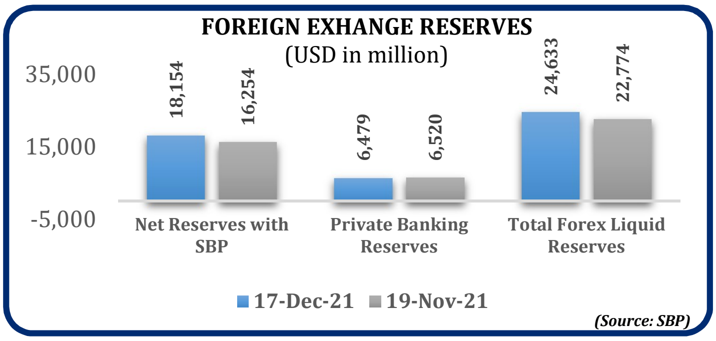
5. FBR TAX REVENUE COLLECTION:



As per the official statistics published by the FBR, the FBR has provisionally collected tax revenue worth PKR 470 billion in November 2021 vs. PKR 348 billion in the same month last year, thereby announcing a rise of 35.2%. In the five months of FY22, FBR's tax revenue grew by 36.52% or PKR 619 billion vs. last year. Moreover, the FBR surpassed its Jul-Nov target of PKR 2,016 billion by 14.78% reflecting an increase of PKR 298 billion. As per Mr. Shahbaz Rana's article titled "FBR beats tax target by Rs298b" published on 1st of December in the Express Tribune, from total tax collection, PKR 1.55 trillion is collected from indirect sources having a share of 67%, whereas, the income tax collection stood at PKR 761 billion. It was also stated therein that 53.6% or PKR 1.24 trillion of total revenues were gathered at the import stage.

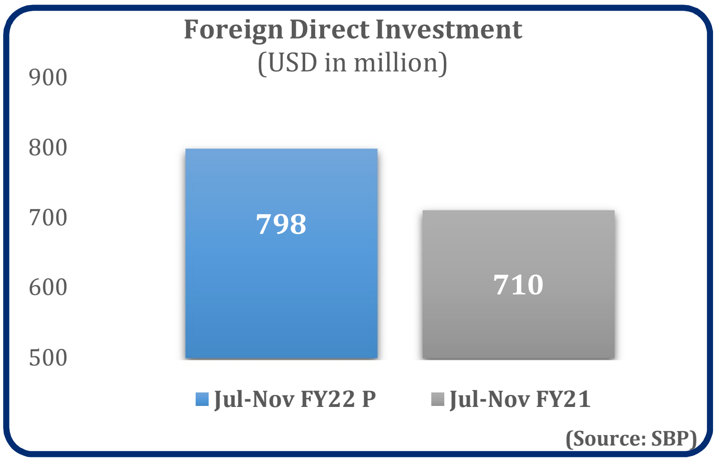
6. FOREIGN EXCHANGE RESERVES:

The reserves of the SBP are $18.15 billion as of 17th December 2021, after accounting for the external debt repayment and other official payments. Pakistan's forex reserves have rose by $2.65 billion or 16.53% to $ 18.66 billion in the first week of December 2021, from $16.01 billion in the last week of the. The increase came on the back of $3 billion assistance provided by Saudi Arabia.

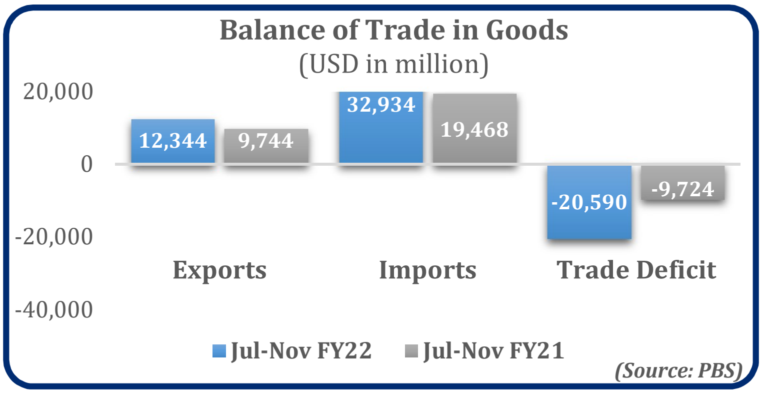


7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has appreciated by 12% or $87.4 million to $798 million provisionally during Jul-Nov FY22, as compared to $710 million during the same period in the preceding year. The share of the sector in the FDI segment for the period Jul-Nov FY22 are as follows: (a) Agriculture sector which stood at almost 25%; and (b) while Electricity, gas, steam and air conditioning supply share stood at 28%. According to the SBP, the total Foreign Investment of the country has increased to $455.5 million during July-Nov FY22, compared to $263.4 million in the same period last year. While the Foreign Investment plunged by 1.5% to $60.6 million on a Y-o-Y basis in Nov 2021 as against the amount of $31.8 million in Nov 2020.



8. BALANCE OF TRADE IN GOODS:



As per the PBS, Pakistan's trade deficit widened by a staggering 111.74% to $20.59 billion during the period Jul-Nov FY22 vs. Jul-Nov FY21 with a marginal rise in imports. However, exports look slightly promising as they were recorded at $2.88 billion, and surged by a margin of 17% vs. October 2021 on a M-o-M basis. With that, the country's trade deficit rose by 27%, to almost $5 billion during November 2021, compared to $3.90 billion in October 2021. While on a Y-o-Y basis, it has appreciated by a mammoth 134% vs. $2.12 billion in the same month of last fiscal year.

9. BALANCE OF PAYMENT:

Pakistan's CAD remained elevated at $7.09 billion in the first five months of FY22, compared to a surplus of $1.88 billion 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 November alone stood at $1.92 billion, recording an increase of 8% on a M-o-M basis. Whereas, for the cumulative period Jul-Nov FY22, CAD stood 5.3% of GDP. Despite being heavily financed by borrowing which is ultimately reflecting historic heights in the level of domestic and foreign debt, the CAD is deteriorating and has put pressure on the domestic currency.

(USD in millions)	July-Nov FY22 P	July-Nov FY21
Current account Balance	(7,089)	1,876
Capital Account Balance	82	102
Financial Account Balance	(5,838)	978
Net FDI in Pakistan	(758)	(659)
Net Portfolio investment	301	453
Net incurrence of Liabilities	5,376	379
Overall Balance	1,184	(601)
SBP Gross Reserve	17,364	14,447
		(Source: SBP)

OUTLOOK:

- We shared our thoughts about de-valuation & increasing the policy rate in previous newsletters. Now the impact of both these policy measures have been realized in terms of an acceleration in the CPI. Along with that, LSM indices have also remained low when the policy rate has been jacked up. However, the SBP has raised the policy rate again which may further exaggerate the inflationary pressure within the economy, and might cause the economic indicators to downslide further with an accelerated pace.
- Pakistan's economy is on a constant brink of losing in the trade account, given the narrow basket of goods in the export sector, which lead to an all-time high trade deficit in a single month, recording in November 2021 at USD 5 billion. Resultantly, the external sector has suffered imbalances, which will ultimately force the current regime to slow down the pace of growth.
- In the coming months, we expect inflation rate to be in double digits, and it might persist for the rest of the FY22. There is need to examine whether our can economy sustain with a poor exchange rate regime and a contractionary monetary policy, given that we have lowest per capita income in region and lowest per capita purchasing power. We need to re-visit interest rates, exchange rate policies, and increase the tax base.
- Objectively viewing the economy of Pakistan, the growth rate and CAD projected by the government do not seem to reflect the ground realities of the Pakistani economy. As stated earlier, the CAD surged by $1.92 billion only in November 2021. If the rate of deficit continuous at this way, it will end up at $15 billion at the end of FY22. With that, the projected growth rate of 4.8% seems unlikely to achieve, given the further rise in policy rate and poor performance of the LSM sector.
- Looking ahead, the outlook of economy seems vulnerable. The incumbent regime needs to look at economic stabilization policies to fix fundamental problems that have been making the Pakistani economy a permanent borrower. Moreover, a proper exchange rate regime is the need of the hour to provide considerable certainty, otherwise Pakistan may end up losing a huge amount of reserves.