TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

PAKONOMICS (Special Edition)

ECONOMIC SURVEY 2021-22

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PREAMBLE:

Assalam-o-alaikum everyone! Hope this publication finds you in good health. The Economy of Pakistan is trying to climb out of an extremely precarious situation, amidst rising global commodity prices, and the supply chain disruptions that have occurred due; (a) Covid-19 pandemic; and (b) the Russia-Ukraine war. Amidst these uncertainties and supply chain disturbances, the Economy of Pakistan has been marred with political instability. On the domestic front, it is a pleasant sight to witness the Prime Minister initiate talks about having a Grand National Dialogue and signing a Charter of Economy. We strongly believe that political stability and a Charter of Economy are the need of the hour. The outgoing Fiscal Year 2021-22 has witnessed an import-led and consumption oriented growth. To decipher and analyze the major fundamentals behind the performance of our Economy for this Fiscal Year, we hereby offer our analysis through this Document titled "**Pakonomics (Special Edition) Economic Survey 2021-22"** on the major Economic developments that have taken place in the last one year. Moreover, the Document further analyzes the trend in agricultural and industrial production, money supply, inflation, foreign exchange reserves, balance of payment, debt profile, savings, investment and other relevant economic factors that have a bearing on the Budget. Nevertheless, this Publication also gives a glimpse of what is to come ahead in the next Fiscal year of the Economy.

We hope this publication will assist in a better understanding of the Macroeconomic Indicators which influence the Economy of Pakistan.

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Pakistan Economy - A bird's-eye view:

Economic Indicators	Period	Status	Current Year	Last Year
Real GDP Growth (Const. Price 2005-06)	Jul-June	↑	5.97%	5.74%
Agriculture Sector	Jul-June	↑	4.40%	3.48%
Industrial Sector	Jul-June	↑	7.19%	7.81%
Services Sector	Jul-June	↑	6.19%	6.00%
Consumer Price Index	Jul-May	↑	11.30%	8.80%
Current Account Deficit	Jul-April	↑	USD (13,779) Million	USD (543) Million
Imports of Goods	Jul-May	↑	USD 72,182 Billion	USD 50,028 Billion
Exports of Goods	Jul-May	↑	USD 28.85 Billion	USD 22.58 Billion
Worker's Remittances	Jul-May	↑	USD 26.1 Billion	USD 24.23 Billion
Overall Debt and Liabilities	March	↑	PKR 54 Trillion	PKR 45 Trillion
Central Government Debt	March	↑	PKR 44 Trillion	PKR 38 Trillion
External Debt and Liabilities	March	↑	PKR 24 Trillion	PKR 18 Trillion
FBR Tax Collection	Jul-May	↑	PKR 5,349 Billion	PKR 4,164 Billion
Foreign Exchange Reserves with SBP	As of 27th May	↑	USD 9.72 Billion	USD 16.13 Billion
Exchange Rate (PKR/USD)	As of 9th June	↑	PKR 200	PKR 156
Investments (% of GDP)	Jul-June	↑	15.1%	14.6%
Currency in Circulation	Jul-20th May	↑	PKR 7,788 Billion	PKR 7,054 Billion

Overview of Economy:

The Fiscal Year 2021-22 started with an aim of having a sustainable economic growth, as the growth supportive policies induced the aggregate demand ("AD") pressure. Consequently, the substantial spillover between growth stimulation and the external sector instability unfortunately resurfaced during the outgoing Fiscal Year. The unprecedented characteristics of the Balance of Payments ("BOP") along with a global rise in commodity prices (displayed in the historic surge in the import bills) has constrained the Economic growth for the outgoing Fiscal Year. . These events led the Government to pursue a monetary and fiscal tightening, in order to rebalance the growth in the AD on the back of External sector sustainability. Although an emulsion of different Macroeconomic indicators is reflecting an expansion in the Economic activity, yet balancing the external sector of Pakistan in a worldwide inflationary environment remained a huge task for the Country.

Below table illustrates Pakistan's Real GDP (Inflation adjusted on Base price of 2005-06) final estimates of Fiscal year 2019-20 ("FY20"), revised estimates of FY21, provisional estimates of FY22, and forecasted growth of FY23.

Real GDP Growth (Base Year 2015-16)				
Sector	**2019-20 F**	**2020-21 R**	**2021-22 P**	**2022-23 E***
Agriculture	3.91%	3.48%	4.40%	3.90%
Industrial sector	(5.84)	7.81%	7.19%	5.90%
Services sector	(1.28)	6.00%	6.19%	5.10%
Overall	(0.97)	5.74%	5.97%	5.0%

Estimates by the Government **(Source: PBS & NAC)**

The economy of Pakistan made a sound recovery and consolidated its growth momentum generated in the Fiscal year 2020-21 ("FY21"). Therefore the Provisional Gross Domestic Product ("GDP") Growth in FY22 is by 5.97%, followed by the revised estimate of 5.74% growth in FY21.

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The GDP growth rate for FY22 is higher than the official target of 4.8% projected by the Planning Commission's in their annual report last year, and far higher than the estimates of the Finance Ministry, State Bank of Pakistan, International Monetary Fund ("IMF"), and World Bank (it is pertinent to note both the IMF and World Bank estimates that are on the old base so they might not be truly comparable).

Comparative analysis of old base year 2005-06 with new base 2005-16 given:

Fiscal Year	Real GDP of Pakistan	
	Base Year 2005-06	Base Year 2015-16
2016-17	5.22%	4.61%
2017-18	5.53%	6.10%
2018-19	2.08%	3.12%
2019-20 F	(0.37%)	(0.94%)
2020-21 R	5.53%	5.74%
2021-22 P	5.69%	5.97%
		(Sources: PBS)

Despite a steady growth in FY22, in comparison to the GDP growth in FY21, the growth in the outgoing fiscal year is fueled with imports and is consumption oriented, which creates a huge external sector pressure on the economy. In addition, the trade deficit and current account deficit had already exceeded from their annual targets and reached to alarming levels. Nevertheless, the growth target was previously set on the back of the following assumptions, *Inter-alia*: (i) Continuation of Monetary and Fiscal stimulus packages; (ii) Vaccination drive to reach the maximum population; (iii) Easing of COVID related restrictions; (iv) Managing Current Account Deficit; and (v) Consistent Economic Policies.

In this backdrop, the economy surpassed the envisaged target with a wide margin and a registered strong growth of 5.97%. This growth was contributed by an Agriculture sector growth of 4.40%, a 7.19% growth in the Industrial sector and a 6.19% growth in the Services Sector. All of these three sectors also surpassed their respective sectorial growth targets. The agriculture sector grew by 7.24% on the back of the growth of important crops during this year. The growth in production of important crops namely Cotton, Rice, Sugarcane and Maize are estimated at 17.9%, 10.7%, 9.4% and 19.0% respectively. The cotton crop increased from **7.1 Million bales to 8.3 Million Bales; Rice production increased from 8.4 Million Tons to 9.3 Million Tons; Sugarcane production increased from 81.0 Million Tons to 88.7 Million tons; Maize production increased from 8.4 Million Tons to 10.6 Million tons;** and **Wheat production decreased from 27.5 Million Tons to 26.4 Million Tons**. Other crops showed a growth of 5.44% mainly because of increase in production of pulses, vegetables, fodder, oilseeds and fruits. Moreover, the Livestock sector is showing a growth of 3.26%; the growth of forestry is 3.13%; and the growth of fishing is at 0.35%. Furthermore, the Government is planning to reduce the growth target of Crops sector in which is an alarming situation if production declines, given that the population will rise by 2.5%. Additionally, to ensure food security given that low production in agriculture products, then the government will end up importing commodities from abroad, which ultimately soar Current account deficit. So, to attain self-sustainability, growth must have to increase. Pakistan has the lowest yield in important crops when compare with India and Worldwide crops yields (Annexure II). Sugarcane despite being the bumper crop, yet we still imported sugar worth of USD 191 million in FY22 (Jul-April).

Meanwhile, the overall industrial sector has shown an increase of 7.19% growth provisionally in FY22. The mining and quarrying sector has decreased by 4.47% due to a decline in production of other minerals. The Large Scale Manufacturing ("LSM") industry is driven primarily by the Quantum of Large Manufacturing indices ("QIM"). The data of the QIM for the July-March FY22 period shows an increase of 10.4%, compared to last FY21. On the other hand, the Growth rate in Service sector has slightly improved from 6.0% in FY21 to 6.19% in FY22. Furthermore, the growth in the service sector has mostly been registered due to the commodity producing sector registering a healthy growth of 5.66%.

Even so, there still remained a question mark on sustainability of the Economic growth as it is primarily driven by excessive demand due to high consumption. However, the Economy of Pakistan is resilient and still has much depth to it. 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. The inflationary pressures during 2021-22 remained elevated due to a combination of factors related to sharply rising international energy & commodity prices and imprudent exchange rate adjustments. Despite all measures taken so far, the exchange rate remains out of control and has remained the biggest concern for our Economy. On the other hand, the shining aspect of this growth is the Government's remarkable success achieved in relation to foreign remittances and provided much needed space to the Balance of Payment. Other reason, of course, is the fact that compared to the level of FY21, our imports have increased by 44.28% to USD 72 billion, an increase that is relatively larger than the increase in our exports that rose by 27.78% to USD 28.85 billion. Unfortunately, the phenomenon is not one of an export-led growth and the same is by no means sustainable for the long term considering it is led by consumption.

In terms of progress, the budgetary situation is still far from being commendable. For the outgoing fiscal year, the Federal Government has estimated an annual budget deficit target of PKR 3,990 billion which is 6.24% of the projected GDP. However, till the Jul-March period of FY22, the budget deficit was equal to 79% of the annual target which is PKR 3,165. Usually, heavy spending is made in the last quarter of every fiscal year as per past evidence (In last quarter of Fiscal year FED budget deficit soar by 0.72%), which suggests that the budget deficit in the current Fiscal Year may soar nearly PKR 5,444 billion. However net deficit might be PKR 5,090 billion since PKR 326 billion subsidy withdrawal on Petrol and Electricity unit and PKR 28 billion in Ehsas programme. Ultimately, for the outgoing FY22, the Government will have a budget deficit standing at 7.6% to 8% of the GDP given the buildup of Government debt up to March 2022. This is a worrying state of affairs, and one of the reasons behind this high budget deficit is a low tax-to-GDP ratio. Going forward, attaining a tax collection target for 2022-23 in the range of PKR 7,000 to 7,250 billion will be challenging given the global uncertainty 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 the IMF conditions.

The Government has set 5.0% economic growth target for the next fiscal year (2022-23) after the National Accounts Committee ("NAC") approved the 5.97% growth figure for the outgoing year, whereas, the inflation is expected to be targeted at around 11.5%. Moreover, the current year's growth led to FBR's expected tax collection of PKR 5.8 trillion but compared to IMF's target of PKR 6.1 trillion it will still fall short. The new coalition Government has increased the fuel prices which will translate into more inflationary pressure. Even after these measures, the Government still lags behind the revenue target by PKR 200 to 250 billion from the official revised target agreed with the IMF.

Moreover, in FY22, the interest rate rose from 7% to 13.75% in FY21 in order to curtail the soaring inflation rate. Yet, this hike in interest rate led to a rise in the cost of doing business and increased interest payments on debt. Along with that, the T-bill rate is more than 15%, which means that the Government is borrowing at a higher rate. This is mainly because of the State Bank of Pakistan ("SBP") Amendment Act 2021 that does not allow the Government to borrow from the SBP. Furthermore, rampant parity devaluation has disrupted business activity and fuelled more inflationary pressure. As an example, the Sri Lankan economy witnessed the same rampant devaluation which led to the unprecedented economic turmoil within the region. The PKR/USD parity should be not more than in the range of 175- 180 against the USD. To stimulate the growth it is advisable to operate on sustainable negative real interest rate. Pakistan is the only economy which has a lowest real interest rate amongst highest inflationary countries (Annexure I). Although credit control restriction, exchange control is highly appreciated policy. However, it is also advice to rebase the Real effective exchange rate to recent year from base index of 2010.

Recipe for a healthy economy should be that the Government lowers the rate of interest since because of the presence of huge parallel base economy. A lower interest rate will help the Government to reduce debt servicing in the short term, medium term and the 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 the currency parity, as it went down historically from its peak level at 152.53/USD in March 2021 to a record low level of 200/USD in May 2022. Due to the decline in the value of the parity, the CPI has risen persistently in Pakistan, and had reached to the highest level in nearly two years in the month of May 2022. Clearly, this worsening state of crisis has appeared on the back of the impact of the currency devaluation with the likelihood that the rate of inflation in Pakistan will be further elevated in the upcoming fiscal year. Therefore, a stable currency parity is the need of the hour. It is necessary for top Pakistani officials to examine whether our economy can sustain with a poor exchange rate regime and contractionary monetary policy given that we have a low per capita income in the region and the low per capita purchasing power. Therefore, we need to re-visit the interest rate and exchange rate policies.

As the country had been reeling from Inflation, the economy growing nearly 6% 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 5.97% is over 1% higher than the official target of 4.8% by the Ministry of Planning. However, due to overheated Economic activity, Pakistan Facing huge External sector crisis. Thus, it poses a serious risk for the explosion of the balance of payment crisis at a time where global commodity price uncertainty is at its peak.

While containing inflationary pressure, key challenge for new 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 likely revenue target of PKR 7.25 trillion will impose further 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.

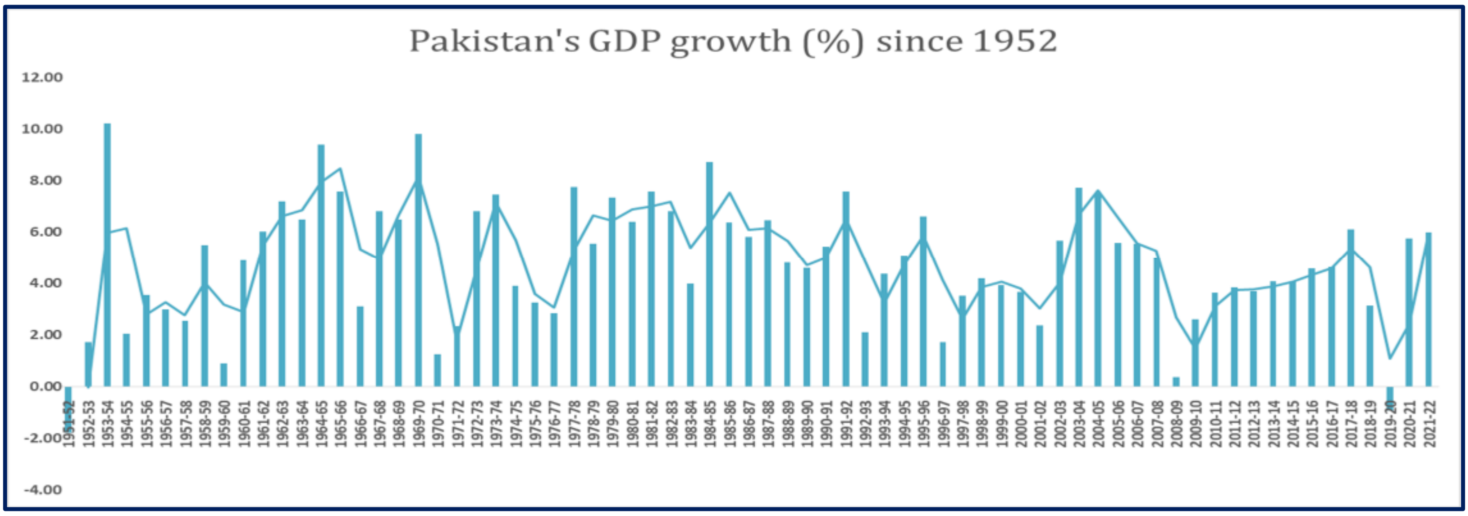
The Government plans to get additional revenues of PKR 500 billion in the upcoming budget through abolishing Income Tax and Sales Tax exemptions and improved administrative measures in order to materialize the FBR's desired target of PKR 7.250 trillion. With nominal growth of 16.5% including real GDP growth rate of 5.0% and inflation at 11.5%, the FBR revenues could only increase to PKR 6,757 billion. The remaining nearly PKR 500 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 had already reeling with External sector pressure.

Tough policy measures is the need of the hour such as, inter-alia: (a) Limit the size of primary deficit in the budget; (b) Effective Tax reforms to broaden the tax base; (c) Structural reforms in the commodity producing sectors; (d) Need to work on comparative trade polices to enhance National Export; (e) Reduce interest rate to boost Economic activity and limit the debt servicing; (f) Manage External sector properly to avoid rampant devaluation of domestic currency.

Pakistan's Real GDP Growth Contribution			
Share in GDP			
Sectors	2019-20 F	2020-21 R	2021-22 P
Agriculture	23.53%	23.02%	22.68%
Industrial sector	18.53%	18.90%	19.11%
Services sector	57.94%	58.08%	58.20%
			(Source PBS)

The share of main sectors in GDP also illustrated in the table. Furthermore, the size of the Economy of Pakistan in US dollar terms has increased to USD 383 billion in 2021-22 from USD 349 billion in FY21, as per the revised base year 2015-16. Similarly, the per capita income that had been estimated at USD 1,676 in the last fiscal year has risen to USD 1,798, reflecting a rise of USD 122 or 7% per person as compared to FY21. However, Pakistan still have the lowest Per capita GDP still lagging behind from those countries who have highest inflation rate. (Annexure I).

The historical GDP growth rate trend is as under:



(Source: PBS)

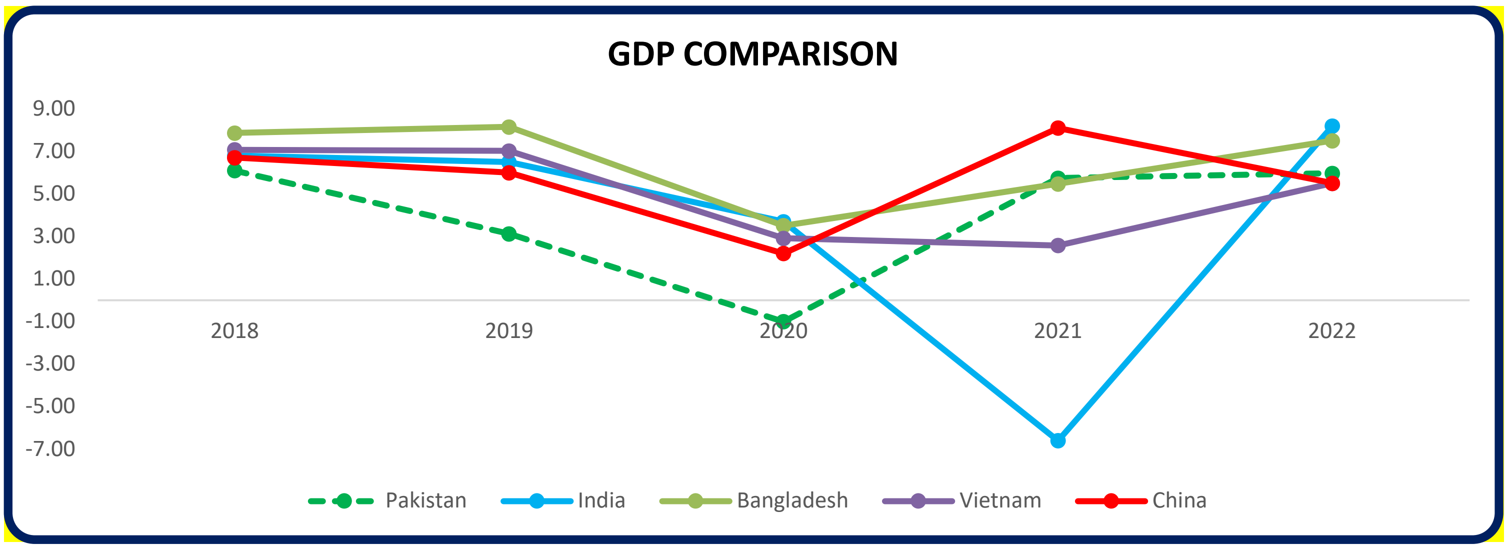
The revised growth of the GDP for the year FY21 is based upon growth estimates of the agricultural, industrial and services sectors at 3.48%, 7.81% and 6.00%, respectively. The growth for FY21 was revised upward from 5.57% to 5.74%. The sector-wise brief is given beside:

Sectors	2021-22		2020-21	
	Targets	Provisional	Provisional	Revised
Agriculture	3.5	4.4	3.48%	3.48
Industrial Sector	6.5	7.19	7.79%	7.81
Services Sector	4.7	6.19	5.70%	6.00
GDP growth	4.8	5.97	5.57%	5.74

1. GDP – GEOGRAPHICAL COMPARISON:

Pakistan's GDP growth has remained way behind the regional economies, but has recovered significantly from the deadliest pandemic year of 2020. Comparing the GDP figures of 2018, we can see a healthy growth rate of 6.10% (in 2018) 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 has been recovering tremendously with an economic growth of 8.2%.



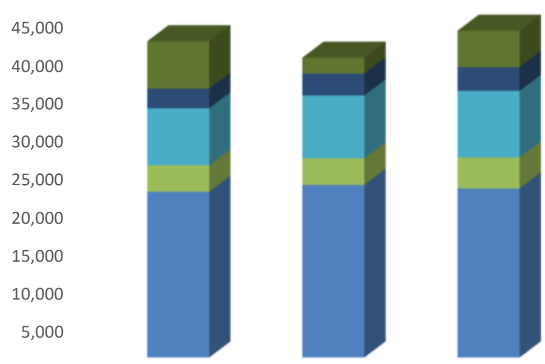
Period	Pakistan	India	Bangladesh	Vietnam	China
2022	5.97	8.2	7.5*	5.5*	5.5*
2021	5.74	-6.60	5.47	2.58	8.10
2020	(1.00)	3.70	3.51	2.91	2.20
2019	3.12	6.50	8.15	7.02	6.00
2018	6.10	6.80	7.86	7.08	6.70
Projected Vales					
					(Sources: PBS, Trading Economics)

**Projected Economic Growth Figures.*

2. AGRICULTURE SECTOR:

The Agriculture sector contributed around 22.68% to the GDP and around 37.45% with regard to employment in the country. The agriculture sector grew by 4.40% during the fiscal year 2021-22 as per the new base year (2015-16) while the growth of important crops during this year is 7.24%. The growth in production of important crops namely Cotton, rice, sugarcane and maize are estimated at 17.9%, 10.7%, 9.4% and 19.0% respectively. However, Wheat production decreased by 3.90%. In absolute terms, Wheat production declined from 27.5 million tons to 26.4 million tons, while production of rice increased from 8.42 million tons to 9.3 million tons, sugarcane production increased from 81.0 million tons to 88.7 million tons, and maize production increased from 8.9 million tons to 10.6 million tons. Interestingly, Wheat crop shows a decline in both production and cultivation area, despite the Government's effort to fulfill domestic demand. Even though sugar remained a bumper crop, yet it was still short in supply in the market forcing the Government to import sugar.

Pakistan's Important Crop
Area (000' Acres)



	2019-20 F	2020-21 R	2021-22 P
Cotton	6,220	2,079	4,786
Sugarcane	2,570	2,879	3,113
Rice	7,497	8,241	8,740
Maize	3,469	3,504	4,085
Wheat	21,757	22,654	22,172

Wheat Maize Rice Sugarcane Cotton

One Hectare = 2.471 Acre

Yield Per Acre			
Crops	**2019-20 F**	**2020-21 R**	**2021-22 P**
Wheat	1.16	1.21	1.19
Maize	2.27	2.55	2.60
Rice	0.99	1.02	1.07
Sugarcane	25.83	28.14	28.47
Cotton	0.75	1.73	0.89

(Source: NAC)

Sugarcane, rice and maize crops achieved record production with impressive increase in per acre yield. Wheat yield was affected by urea availability and disruptions in irrigation water supply, increase in rust prevalence and high temperatures in the last fortnight of March (heat wave). The estimated production for the ongoing Fiscal Year is less than the target as well as the last year crop production, mainly due to a decrease in area and yield. The short supplies of fertilizers and irrigation water / less rains during Rabi 2021-22 are three major factors which resulted in recent lower than target production of wheat. Although, cotton production remained below target during FY22, however, it was 17.9% greater than the crop output of last year. Keeping in view the 6.83% reduction in cultivation area.

The table here in below shows the provincial production of important crops, where Punjab shows significant improvement in FY22 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, the Federal Government must focus on introducing new technologies in order to meet domestic demand and to avoid further imports. On the other hand, wheat, maize, rice, and sugarcane have registered a positive growth of 8.78%, 13.41%, 13.57% and 22.04% respectively in the revised estimates for the Fiscal Year FY21 documented in the NAC report.

Production of Important Crops (000' Million Tons)												
	2019-20 F				2020-21 R				2021-22 F			
Crops	Punjab	Sindh	KPK	BA	Punjab	Sindh	KPK	BA	Punjab	Sindh	KPK	BA
Wheat	19,402	3,848	1,130	867	20,900	4,043	1,362	1,159	20,032	5,760	1,381	1,221
Maize	6,995	4	882	3	8,030	4	801	5	9,739	4	887	5
Rice	4,144	2,577	159	535	5,301	2,416	159	544	5,770	2,861	158	535
Sugar- cane	43,347	17,234	5,754	45	57,000	18,336	5,628	46	64,265	15,461	4,910	35
Cotton	3,218	1,401	0.3	49	2,574	950	0.2	81	2,637	1,530	0.3	83
(Source: NAC, PBS)												

Moreover, the Livestock sector has posted a growth of 3.16% where all sub-sectors have shown reasonable growth. Pakistan is 4th largest milk producing country in the world, and in FY21 milk production was 63 million tons and grew by 3.23% over the last year's production. Despite that, around 20% of this milk production had been wasted (15% due to faulty transportation and lack of chilling facilities and 5 % in suckling calf nourishment) which is a loss of 12.74 million tons per annum.

The table *infra* shows the segregated chart of the livestock sector:

ITEMS	2021-22 P	2020-21 R	Growth (%)
A. Gross output	**7,010,415**	**6,795,383**	**3.16**
1) Natural growth and re-generation	818,080	794,566	2.96
2) Sold for Slaughtering	1,389,547	1,351,072	2.85
3) Livestock Products	4,017,781	3,899,655	3.03
(i) Milk	3,492,295	3,383,960	3.20
(ii) Other Products	525,485	515,696	1.90
4) Poultry Products	726,383	676,171	7.43
5) Honey bee Keeping	37,087	53,241	(30.34)
6) Silk worm rearing	19	7	162.35
7) Animal Husbandary	21,206	20,450	3.70
8) Hunting	312	220	41.82
B. Intermediate Consumption	**1,567,389**	**1,524,315**	**2.83**
C. Gross Value Added	**5,377,022**	**5,209,626**	**3.21**
i) Livestock & Livestock Products	5,008,608	4,857,626	3.11

ii) Poultry & Products	330,190	307,365	7.43
iii) Honey Bee keeping	16,689	23,959	(30.34)
iv) Silkwor rearing	17	6	183.33
v) Animal Husbandry	21,206	20,450	3.70
vi) Hunting	312	220	41.82
GVA -Check (A-B)	**5,443,026**	**5,271,068**	**3.26**

(Source: NAC)

Pakistan has abundance of livestock, and this sector can earn huge foreign exchange for the country and turn out to be the billion dollar industry for Pakistan by exporting quality value added products such as meat and milk powder. One way to go by is through adopting new avenues for halal certification to capture global markets. Further, we have to control livestock smuggling to Afghanistan and other international markets so that the benefits will remain within the country. A threat also remains of the potential disease spread amongst the herd, for which timely measures at both the Federal and local level must be undertaken. Pakistan's average Cow/Buffalo's milk littering is 14 to 13 litres per day, however globally highest milk littering is 123 litres per day and a dairy cow will produce an average of 28 litres per day. So, if we manage to increase milk produce to 20 liters per day from 13 litres, then we may have abundance of Milk produce and it will helpful to curb import bills as Pakistan imported Milk product worth of USD 135 in Jul-April period of outgoing fiscal year.

The growth in forestry sector is recorded at 6.13%, whereas, in fishery, it is 0.35%. Overall, the Agriculture sector grew by 4.40% in FY22 vs. 3.48% a year ago. Whereas, the targeted growth was 3.50% in FY22. Important crops and livestock, cotton ginning improved its performance and dragged growth to upward direction. Important crops rises 3.5% growth due to an increase in production of Sugarcane, rice and maize to reach their highest ever level in history.

Agriculture Sector (Base Year 2015-16)		
Sub Sectors	Provisional Growth 2020-21	Share in GDP
1. Crops (i+ii+iii)	6.58%	6.80%
i. Important Crops	7.24%	7.84%
ii. Other Crops	5.44%	4.41%
iii. Cotton Ginning	(9.19%)	3.14%
2. Livestock	3.26%	14.04%
3. Forestry	6.13%	0.49%
4. Fishing	0.35%	0.32%
Overall Growth	4.40%	22.68%

(Source: PBS)

The table Supra describes the Agriculture sector flow and its sub-sector share in the GDP.

The Agriculture sector share in the GDP (Constant Base 2015-16) is 22.68% in FY22. The share of Agriculture in Pakistan's GDP was 23.02% in FY21, which also declined from 23.53% in FY20, according to the revised figures of PBS.

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 FY20). Despite a declining share in GDP, the important crops have improved their sectorial share in GDP, and drove the overall growth of the agriculture sector in FY22. Livestock sector has around 60% share in Agriculture sector and contributes 14% in the GDP. The same grew by 3.26% according to PBS estimates. Growth of livestock sector and poultry sector might have been impacted due to drop in demand and rising inflationary pressure and other disease impacts. On the other hand, Forestry sector has low GDP contribution of merely 0.49%. Wildlife and forest are inseparable, when there is huge proportion of forest so there will be wildlife. The Government needs to initiate programs to reduce desertification, illegal poaching and forest degradation. This can lead to Pakistan improving in the performance of these departments would not only provide protection to forests and wildlife but it would also promote eco-tourism in Pakistan. Similarly to Forestry, Fishing sector is struggling to put forth significant contribution in the Economic Growth. This sector can be beneficial to boost National Exports as its share counts 1.5% to 1.8% to total Exports, all it needs is modernization of the infrastructure. In addition to that, Government should move towards Shrimp farming to increase the exports.

3. INDUSTRIAL SECTOR:

The share of the industrial sector in the GDP has increased to 19.11% in FY22, compared to 18.90% in FY21. Moreover, the Industrial sector plays an instrumental role in economic development, job creation and maintenance of economic surplus of the country. The share in total employment of Industrial sector is 25.38%. For many years, it has been driving GDP growth of the country. The industrial sector managed to post a resilient growth in FY22 and has significantly increased by 7.19% (Slight lower than revised estimates of FY21 which was 7.81%); mainly due to Manufacturing sector which contributes to around 65% in total industrial output which translates to 12.43% of GDP. Furthermore, a rise in the LSM sector contributed a lot in the Manufacturing sector which rose by 10.48% in FY22. This is followed by Small Scale Manufacturing ("SSM") that rose by 8.90%, which accounts for almost 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 4.47% in FY22. One of the main reasons for this poor performance in the current fiscal year is due to a decline in the production of limestone and marble by 21.7% and 3.4% respectively. Moreover, the Construction sector registered growth of 3.1% based upon the Government initiative of Mera Pakistan Mera Ghar and construction sector related amnesty scheme. Electricity generation & gas distribution sub-sector grew by 7.9% during FY22.

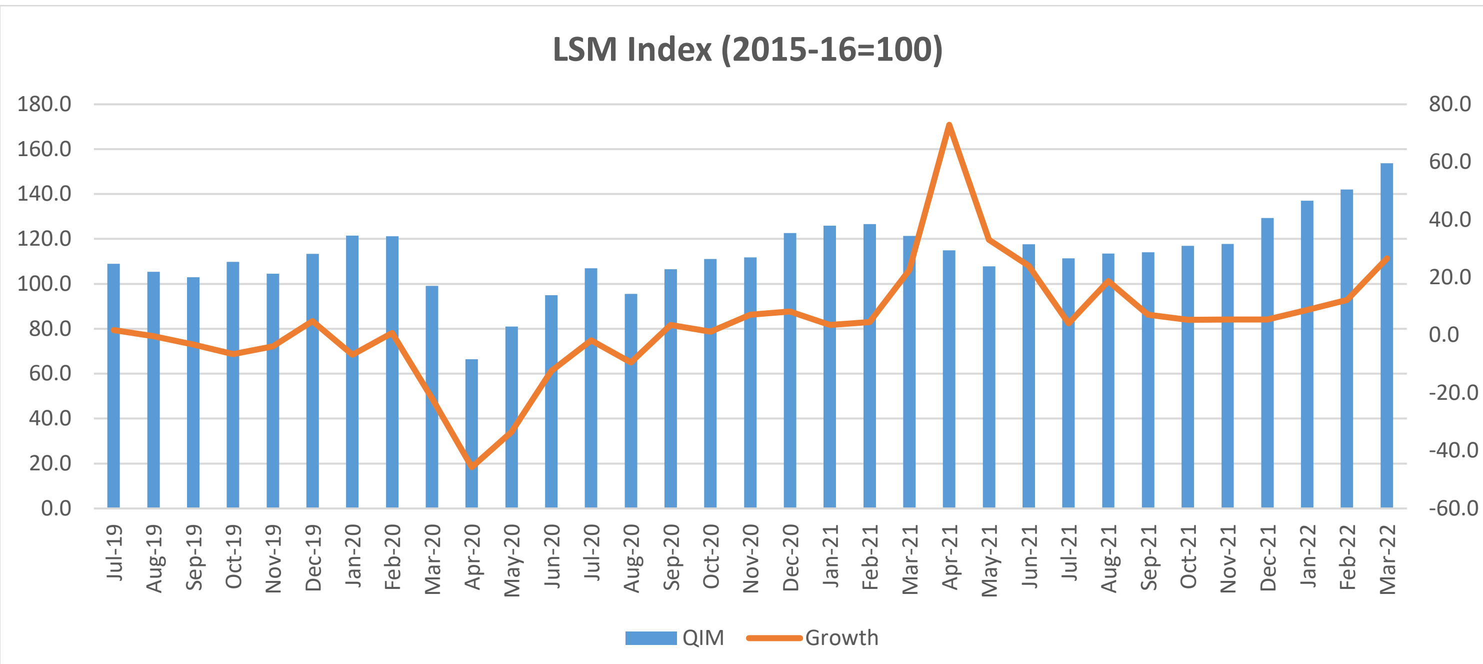
S NO	ITEMS (Base 2015-16)	UNIT OF QUANTITY	WEIGHT	2021 – 22 P (Jul- Mar)	2020 – 21 R (Jul- Mar)	Growth
	Textile		**18.16**	**108**	**105**	**3.20**
1	Yarn	MT	8.88	2,594,690	2,577,675	0.70
2	Cloth	000 Sq M	7.29	788,285	786,042	0.30
	Food		**10.69**	**174**	**156**	**11.70**
3	Sugar, Bakery products	MT	3.43	7,759,825	5,618,976	38.10
4	Wheat & Rice Milling	MT	3.66	8,588,923	8,820,207	(2.60)
5	Cooking oil	MT	1.48	370,181	334,107	10.80
6	Vegetable ghee	MT	1.38	1,060,111	1,087,827	(2.50)
	Beverages		**3.84**	**104**	**103**	**0.70**
	Tobacco		**2.07**	**115**	**98**	**16.70**
7	Cigarettes	Mil. Nos.	2.07	46,070	39,473	16.70
	Wearing Apparel		**6.08**	**152**	**113**	**34.00**
8	Garments	000' Dozen	6.08	37,299	27,845	34.00
	Fertilizers		**3.93**	**112**	**108**	**3.30**
9	Nit. fertilizers	NT	3.43	2,505,757	2,450,066	2.30
	Coke and Petroleum Products	**000 L**	**6.66**	**100**	**98**	**2.00**
	Pharmaceutical		**5.15**	**109**	**109**	**(0.40)**
	Chemical Products		**6.48**	**114**	**106**	**7.80**
	Non Metalic Mineral		**5.01**	**141**	**139**	**1.10**
10	Cement	000 MT	4.65	36,543	37,619	(2.90)
	Iron and Steel Product		3.45	134	115	16.50
	Electrical Equipment		2.05	163	165	(1.10)
	Automobiles		3.10	126	81	54.10
11	Jeeps & Cars	Nos	2.71	177,757	114,617	55.10
QIM			**78.37**	**126**	**114**	**10.40**

Source: PBS

The table above illustrates the production data of LSM industries for the years, 2020-21 revised, 2021-22 Provisional for the nine months July to March.

The LSM sector is driven primarily on data from July 2021 to March 2022 which shows an increase of 10.4%. Major contributors to this exceptional growth are the growth rates of different groups such as, Textile (3.20%), Food (11.70%), Beverage (0.70%), Tobacco (16.70%), Coke and Petroleum products (2.00 %), Chemicals (15.20%), Non- Metallic Minerals (1.10%), Automobiles (54.10%), Wearing Apparel (34.0%), Fertilizers (3.30%), Iron and Steel Product (16.50), Leather products (1.5%), Electronic (1.0), and Machinery and Equipment (8.90%). However, some sub-sectors depreciated in which, Pharmaceutical Products contracted by 0.4%, whilst Rubber products, Fabricated Metal, Electrical Equipment, and transport equipment contracted by 20.6%, 7.2%, 1.1%, and 10.2%, respectively.

The chart Infra shows the QIM indices and growth in LSM Industries.



The table *Infra* shows Provisional Growth of FY22 and Industrial's Sub sector share in GDP for the last ten years.

Industrial Sector (Base year 2015-16)	Provisional Growth 2021-22	Share in GDP
1. Mining and Quarrying	(04.47%)	1.71%
2. Manufacturing (i + ii + iii)	09.80%	12.43%
i. Large Scale	10.48%	9.24%
ii. Small Scale	08.90%	1.98%
iii. Slaughtering	06.24%	1.21%
3. Electricity Generation andDistribution and Gas Distribution	(07.85%)	2.41%
4. Construction	03.14%	2.56%
Overall Growth	**07.19%**	**19.11%**
		(Source: PBS)

In FY22, Government's effective handling and stimulus packages helped the sector to revive and post a healthy growth. Elevated industrial performance over past two years is expected to consolidate and augmented production capacity during these years will anchor the growth momentum. However, the growth momentum will be moderated owing to fiscal consolidation efforts. The broad-based revival of LSM is projected to sustain growth at 7.4% during 2022-23. There are downside risks of high cost and low supplies of energy inputs, exchange rate related volatility and Russia-Ukraine conflict related supply side shocks, which have potential to impact manufacturing sector performance. The overall manufacturing sector is projected to post growth of 7.1 percent during 2022-23. With all this instability, the Industrial sector is estimated to growth at 5.9% during the Fiscal year 2022-23. However, the Industry is expected to slow pace in 2022-23 with the implementation of monetary and fiscal tightening policies. The Industrial sector has long remained under a constrained Economic environment such as, rampant devaluation, lack of innovation, unable to protect local engineering industries, underutilization of subsidies. Moreover, rising costs of industrial inputs, frequent and repetitive implementations of stabilization and revenue measures and lower domestic demand are some of factors which had its adverse impact to industrial sector.

Electricity Generation & Gas Distribution sector has a low target of 3.5% for FY23, compared to its provisional growth of 7.9%, particularly, due to a fall in investment related to the electricity & gas distribution sector. The energy systems around the world are undergoing rapid transitions, exploring new sources and ways to generate Electricity. These trends are expected to bring widespread change for businesses sectors. The Government will have to stay abreast with this changing scenario. The generation and transmission capacity of existing systems will have to be increased with the aim of improving the performance of this sector. Sindh has huge coal reserves in Lakhra, while we also have the unexplored Balochistan who would be highly beneficial if utilize efficiently.

Since the withdrawal of the Construction Amnesty, this sector has been witnessed a slowing the pace of Growth, going down from a double digit growth of 10.7% in revised estimate of FY21 to a 3.1% growth in FY22. Construction activities are notably facing a dent for the first time since the Government introduced the incentive package to aid construction and allied industries, in order to create employment opportunities for low wage earners and to revive the COVID-19 hit domestic economy. With the aim to grow 4.0% in FY23, given the rising input cost, the Government needs measures to secure the supply of raw materials to the constructors and builders through medium and long term supply chain agreements on desirable pricing.

4. SERVICES SECTOR:

The share of services sector in the GDP stood at 58.20% as per the new base year 2015-16, showing a minor increase from 58.08%, supported by close backward and forward linkages with economic value added and output of commodity producing sectors (Agriculture and Industrial sectors). The Commodity producing sectors during FY22 grew by 5.66%, thereby, the performance of dependent services also had its positive impact. Therefore, Services posted higher outturns in its sub-sectors such as, Inter-alia: (1) Wholesale & retail trade; (2) Transportation and storage; (3) Banking and Real Estate services; (4) IT related services.

As per the provisional data of the PBS of FY22, Wholesale and Retail Trade sector, which depends highly on output of Agriculture, Manufacturing and Imports, grew by 10.04%. Followed by Transport, Storage and Communication sector grew by 5.42% due to increase in use of railways, air transport and communication. Finance and insurance sector shows an overall increase of 4.93% owing to increase in deposits, loans and insurance. The provisional growth in the Information and Communication sector rose by 11.90%, due to the fact that the incredible rise in IT exports that is reported at 29% in FY22. While the provisional growth in Hotels & restaurants services, Real estate services, Education, Health and Other private services was registered at 4.07%, 3.70%, 8.65%, 2.25%, and 3.76%, respectively. Whereas, the public administration services contracted by 1.23% in FY22.

Infra table represents the flow chart of the Services sector, highlighting their Growth rates and share in GDP.

Service Sector (Base Year 2015-16)	Provisional Growth 2020-21	Share in GDP
1. Wholesale and Retail trade	10.04%	18.83%
2. Transport , storage , and communication	5.42%	10.38%
3. Accommodation and Food Services Activities)	4.07%	1.40%
4. Information and Communication	11.90%	2.70%
5. Financial and Insurance Activities	4.93%	1.86%
6. Real Estate Activities (OD)	3.70%	5.57%
7. Public Administration and Social Security	(1.23)%	4.64%
8. Education	8.65%	2.97%
9. Human Health and Social Work Activities	2.25%	1.54%
10. Other Private services	3.76%	8.32%
Overall Growth	6.19%	58.20%
		(Source: PBS)

For the last six years from FY17 to FY22, the services sector has been growing on an average pace of 5.35%, reflecting a steady growth path. While, the NAC announced the revised estimates of FY21, the growth of services sector has improved to 6.0%. In contribution to GDP, the largest sub sector Wholesale retail trade has recorded a double-digit growth in the last two fiscal years. While it has not performed well in the first two fiscal years of the previous regime with a low growth of 3.55% in FY19 and contraction of 1.21% reported in FY20, respectively,, Followed by an improvement, to a growth of 10.58% in FY21.

Similarly, the 5.42% growth in Transportation & Storage industry is due to an increase in railways by 41.85%, air transport 26.56%, road transport 4.99% and storage by 10.01% in FY22. Accommodation and food services activities have grown by 4.07%. The Information and communication grew by 11.9% due to an improvement in the telecommunication, computer programming, consultancy and related activities in FY22. Along with that, the growth increased in the revised estimate of FY21 from 4.8% to 7.50%, on the back of a rise in PTA revenue, which has led to a rise for the Telecommunication industry from PKR 349 billion to 386 billion.

Moreover, the Finance and insurance industry has shown an overall increase of 4.93% in FY22 mainly due to increase in Financial Intermediation Services Indirectly Measured ("FISIM") on deposits and loans. However, in its revised estimate of FY21, it went down from 7.0% to 5.94% due to a decline in the value added of life insurance from PKR 41.5 billion to 14.5 billion. The Real estate activities grew by 3.70% in FY22, and its growth remained same in revised estimates of FY21 (i.e 3.64%). Whereas, the public administration and social security (general Government) activities posted a negative growth of 1.23% in FY22 due to high inflation, and it also slightly contracted more from its provisional estimate of "0.01%" to "0.55%" in FY21. Education has witnessed a growth of 8.65% in FY22 due to public sector expenditure, and due to arrival of more updated data its growth revised from 0.02% to 3.25% in FY21. Likewise, Human health and social work activities also increased by 2.25% due to general Government spending in FY22, the available data claimed that it had been revised from 1.6% to 2.3% in FY21. The provisional growth in other private services is 3.76% in FY22 and registered 5.0% growth in FY21 (revised estimate) due to decline in other business, recreation, culture and sports activities.

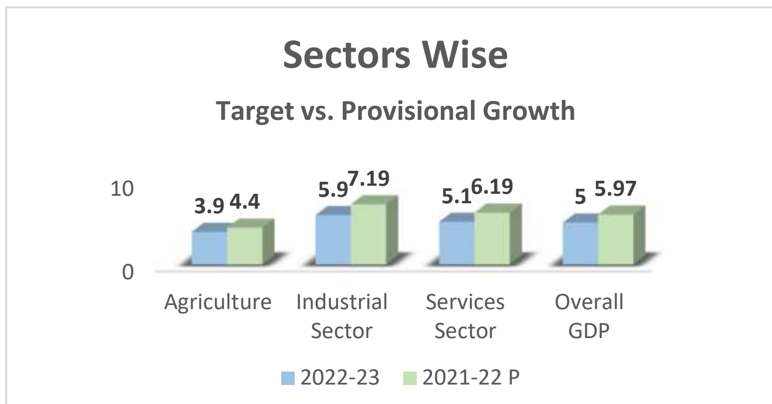
As the economy is still experiencing the deadly shock of the external sector on services, if further and stricter unforeseen economic conditions emerge, it may stagnate this sector's growth given the dependency on the commodity producing sector. If such unforeseen economic conditions emerge, they are likely to further meltdown the growth prospects of the private sector. Going forward, a modest growth in Service sector may help in coming out of the existing depressed economic dynamics posing multiple domestic and external challenges.

The Services Sector is targeted to grow by 5.10% in FY23 which is still lower than its six year annual average growth of 5.35%. This growth is supported by a 6.5% growth in wholesale & retail trade, 4.5% in transport, storage & communication, 6.0% in Information and Communication, 5.1 % in finance & insurance, 4.0 % Real estate, Followed by the Health 3.0% and education 4.9%, and 4.8% 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 2022-23:

As per the Planning Commission, the overall GDP growth pace is expected to slow down in FY23. The GDP growth of the country for FY23 is targeted at 5.0% out of which, Agriculture, Industry and Services sector are expected to post a 3.90%, 5.90% and 5.10% growth respectively.

Sectors	Target for 2022-23
Agriculture Sector	3.90%
Industrial Sector	5.90%
Services Sector	5.10%
Overall GDP	5.00%
	(Source NAC)

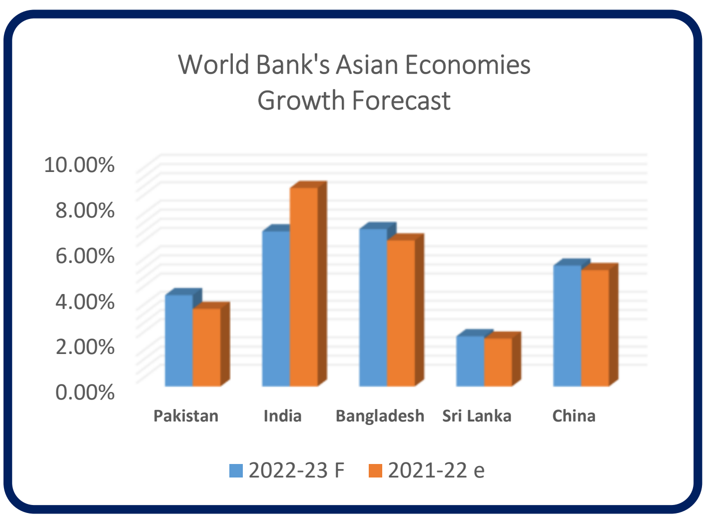


Sectors/Industry	Provisional estimates of NAC for 2021-22	Target for 2022-23 (2015-16 prices)
A. Agriculture	**4.40%**	**3.90%**
Important crops	7.24%	3.50%
Other crops	5.44%	5.00%
Cotton Ginning	9.19%	6.00%
Livestock	3.26%	3.70%
Forestry	6.13%	6.10%
Fishing	0.35%	4.50%
B. Industrial sector	**7.19%**	**5.90%**
Mining and Quarrying	(4.47%)	3.00%
Manufacturing (i+ii+iii)	9.80%	7.10%
i. Large Scale	10.48%	7.40%
ii. Small Scale	8.90%	8.30%
iii. Slaughtering	6.24%	3.00%
Electricity generation and distribution	7.86%	3.50%

Pakistan Economic Survey 2021-22

Sectors/Industry	Provisional estimates of NAC for 2021-22	Target for 2022-23 (2015-16 prices)
Construction	3.14%	4.00%
Commodity Producing Activities (A+B)	**5.66%**	**4.80%**
C. Services Sector	**6.19%**	**5.10%**
Wholesale and Retail trade	10.04%	6.50%
Transport, storage and communication	5.42%	4.50%
Accommodation and Food Services	4.07%	4.10%
Information and Communication	11.90%	6.00%
Finance and Insurance	4.93%	5.10%
Real Estate Activities (OD)	3.70%	3.80%
Public Administration and Social Security	(1.23)%	4.00%
Education	8.65%	4.90%
Health & Social Activities	2.25%	3.00%
Other private Services	3.76%	4.80%
GDP Growth Rate	**5.97%**	**5.00%**
		(Source: NAC)

The World Bank has slashed the growth forecast for Pakistan in 2022-23, mostly due to high oil and food prices caused by the war in Ukraine and it may have a strong negative impact on the emerging economies. Moreover, the World Bank has further revealed that the sectors that employ the poorest, such as Industry, are expected to remain weak, and therefore poverty is likely to remain high.



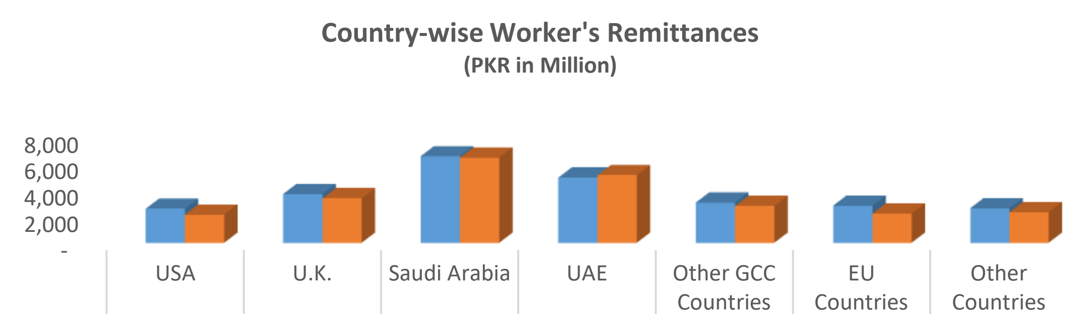
World Bank's Asian Economies Forecasted GDP Growth		
Countries	2022-23	2021-22
Pakistan	4.00%	3.40%
India	6.80%	8.70%
Bangladesh	6.90%	6.40%
Sri Lanka	2.20%	2.10%
China	5.30%	5.10%
		Source: World Bank

- According to proposed annual plan of the Planning Commission for FY23, the GDP growth will slightly taper off on the back of the external sector crises, and is envisaged at 5.0% for FY23 supported by Agriculture sector growth 3.9%, Manufacturing sector growth at 7.1% and services sector growth at 5.1%.
- The targeted 5.0% growth rate for FY23 is anchored upon ensuring quality growth without triggering fiscal and external sector imbalances.
- Slow growth projections in Agriculture sub sectors; particularly crops and cotton ginning will might create import bills, otherwise government need a technological advancement.

- The growth targets are subject to addressing the external sector vulnerabilities; particularly in the light of extent of global slowdown and the expected abatement of global inflation in commodity prices and the stability of exchange rate movements, along with, consistent economic policies and well-aligned monetary and fiscal policies.
- Further, monetary easing will also improve the fiscal position. The inflation is expected to remain in double digit as global inflationary pressures will not taper off very quickly.
- High Interest rates may further elevate the Gross debt of the Government.
- External sector will improve upon import compression measures. Export outlook will be impacted by global demand compression and increasing protectionism tendencies in the world.
- External sector will also be manageable as buoyancy in remittance inflows and given the better exports performance is continue.
- Pakistan’s exporters may face challenging domestic and external environment. Import demand is likely to increase due to growing aggregate demand.
- The Current account deficit target for FY23 is set at 2% of GDP, which may be over $9 billion.
- A rise in the global commodity demand in FY23 and slow economic activity amidst supply side disruption due to Russian-Ukraine conflict, is expected

6. WORKER’S REMITTANCES

On a cumulative basis, worker’s remittances have surpassed previous records. At USD 26.08 billion in July-April FY22, the worker\s remittances grew by 7.63% over the same period last year. Pakistani emigrants sent home record USD 29.45 billion during the last fiscal year. It was expected to rise further in outgoing fiscal year given the travel restrictions amid resurgence of COVID, however, the growth went down from 29% in FY21 due to the resumption of international flights having a big blow for remittances in FY22. Whereas, Political and Economic situation would be a key factor to determine remittances in the upcoming fiscal year. Furthermore, the Government’s digitalization initiatives helped in boosting remittances in the recent past; however, the quantum of monthly inflows is marginally declining. Remittances are consistently in the “$2.5 billion plus” zone for the last 24 months, barring January and February 2022. It may be noted that remittances touched their highest ever level in a single month in April 2022.



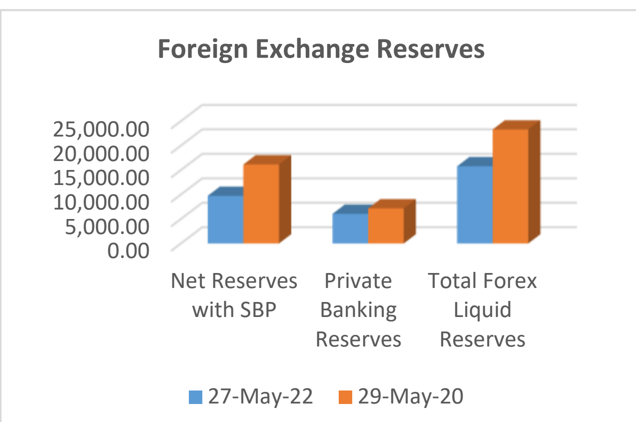
	USA	U.K.	Saudi Arabia	UAE	Other GCC Countries	EU Countries	Other Countries
10MF22	2,557	3,671	6,517	4,898	3,024	2,803	2,606
10MF21	2,124	3,341	6,412	5,083	2,762	2,206	2,301

However, despite being the record growth of worker remittance, Pakistan has lowest per worker remittance, when compare with India, Bangladesh, Sri lanka, and Philippines (Annexure III).

Country-wise Worker's Remittances						
($ million)	April-22	March-22	M/M change	10MFY22	10MFY21	Y/Y change
USA	346	300	15.22%	2,557	2,124	20.38%
UK	484	401	20.72%	3,671	3,341	9.89%
Saudi Arabia	707	678	4.35%	6,517	6,412	1.64%
UAE	614	515	19.22%	4,898	5,083	-3.65%
Other GCC countries	359	343	4.60%	3,024	2,762	9.51%
EU countries	298	280	6.44%	2,803	2,206	27.08%
Others	317	293	8.08%	2,606	2,301	13.27%
Total	3,125	2,810	11.20%	26,077	24,229	7.63%
						(Source: SBP)

7. FOREIGN EXCHANGE RESERVES

The reserves of the SBP reserves stand at USD 9.72 billion as of 27th May 2022.



($ in million)	**27-May-22**	**29-May-20**
Net Reserves with SBP	9,722.90	16,133.6
Private Banking Reserves	6,048.50	7,160.5
Total Forex Liquid Reserves	15,771	23,294
		(Source: SBP)

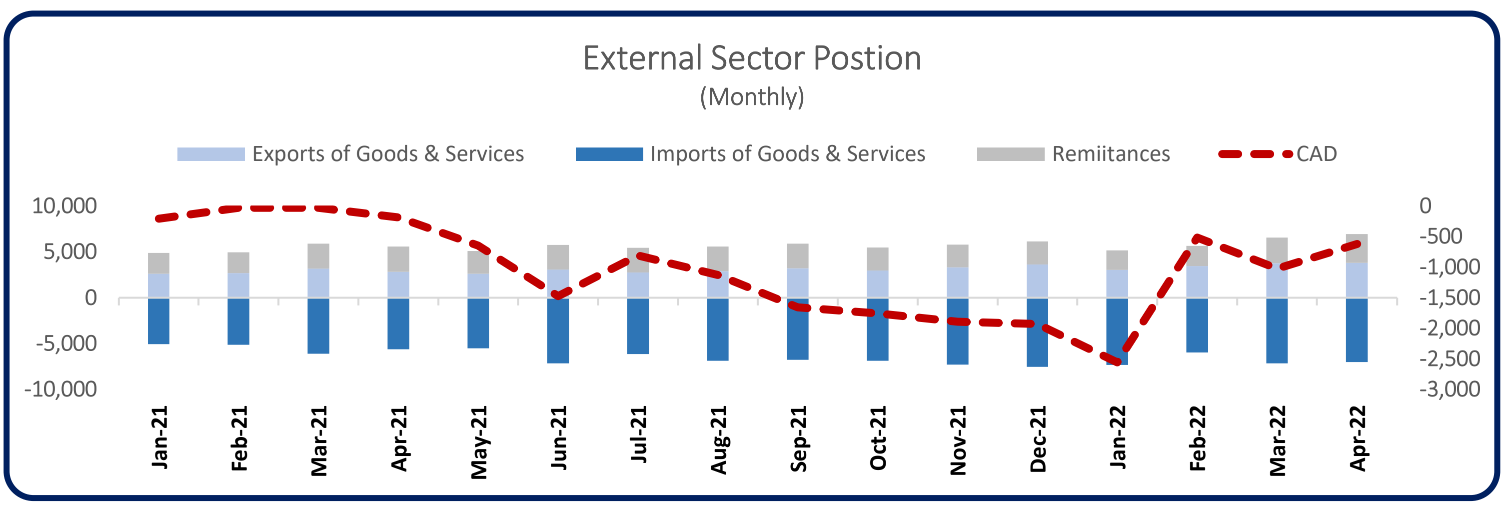
With respect to the reserves held by SBP, every month the SBP releases their 'International Reserves and Currency Liquidity' report where the aggregate of both the short and the long term future positions in foreign currencies vis-a-vis domestic currency (including the forward leg of currency swaps) are reported. From the latest report of April 2022, by the end of the month, the Government had reserves at USD 10.49 billion which included USD 4.29 billion swaps and therefore, SBP's net reserves came to USD 6.2 billion. This manner of reporting foreign currency reserves of SBP has been in practice since 1998.

8. Current Account Deficit:

According to the SBP, Pakistan's current account deficit ("CAD") has soared to USD 13,779 million against the deficit of last year of USD 543 million at the end of April 2022. The CAD has risen primarily due to an increase in import bills and the record breaking increase in trade deficit. Unfortunately, it is not an export-led growth scenario and from this perspective, the current account has posted a huge deficit. It clearly shows that the Government needs to focus in export enhancement by upgrading value chain in the LSM sector to capture global market. Moreover, it seems that for the future, the CAD may remain controllable due to the high measures taken to curb unnecessary imports, which will make the position better for the new regime to settle the external sector position of Pakistan in the coming months. Furthermore, a steep growth in workers' remittances will may help keep the current account in sustainable position in FY22.

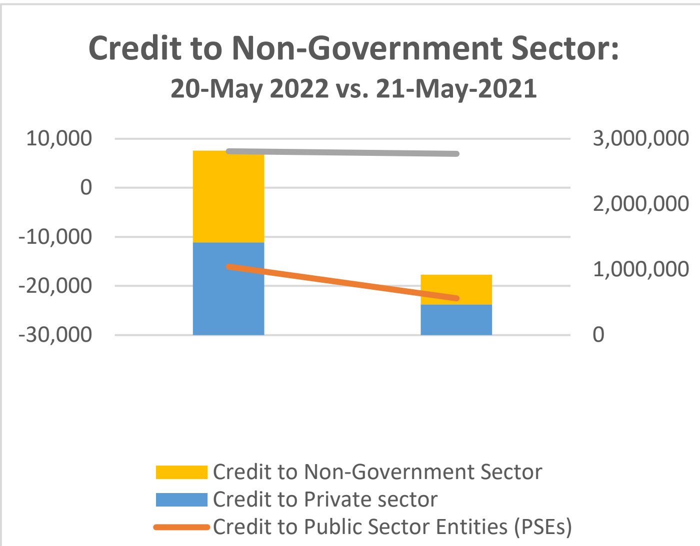
($ in million)	Apr-22 Provisional	Mar-22 (Revised)	Percentage Change	Jul-Apr FY22	July-Apr FY21	Percentage Change
Current account Balance	**(623)**	**(1,015)**	(38.62%)	**(13,779)**	**(543)**	2437.57%
Capital Account Balance	***3,229***	***2,993***	7.89%	***27,267***	***27,288***	(0.08%)
Financial Account Balance	**189**	**3,618**	(94.78%)	**(8,279)**	**(4,517)**	83.29%
Net FDI in Pakistan	**(177)**	**24**	(837.50%)	**(1,437)**	**(1,362)**	5.51%
Net Portfolio investment	**46**	**428**	(89.25%)	**(137)**	**(2,160)**	(93.66%)
Net incurrence of Liabilities	**(187)**	**(352)**	(46.88%)	**9,284**	**2,432**	2.82%
Overall Balance	**708**	**4,609**	(84.64%)	**5,820**	**(3,564)**	(263.30%)
SBP Gross Reserve	10,499	11,425	(8.11%)	10,499	15,598	(32.69%)
						(Source: SBP)

The Graph herein below illustrates the Pakistan's External Sector performances since January 2021:



9. Credit to Non-Government Sector:

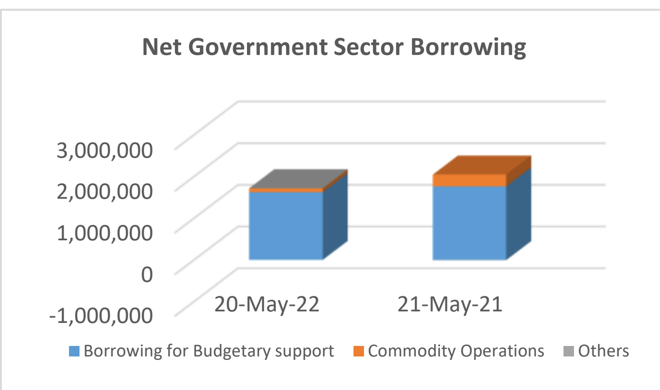
The Private sector credit-off rises to PKR 1,414 billion as of 20th May 2022 vs. 468 billion last year



(PKR in million)	Monetary Impact since 1st July to	
	20-May-22	21-May-21
Credit to Private sector	1,413,866	468,712
Credit to Public Sector Entities (PSEs)	(16,077)	(22,483)
Credit to NBFIs	7,440	6,949
Credit to Non-Government Sector	1,405,229	453,178

(Source: SBP)

10. Net Government Sector Borrowing:

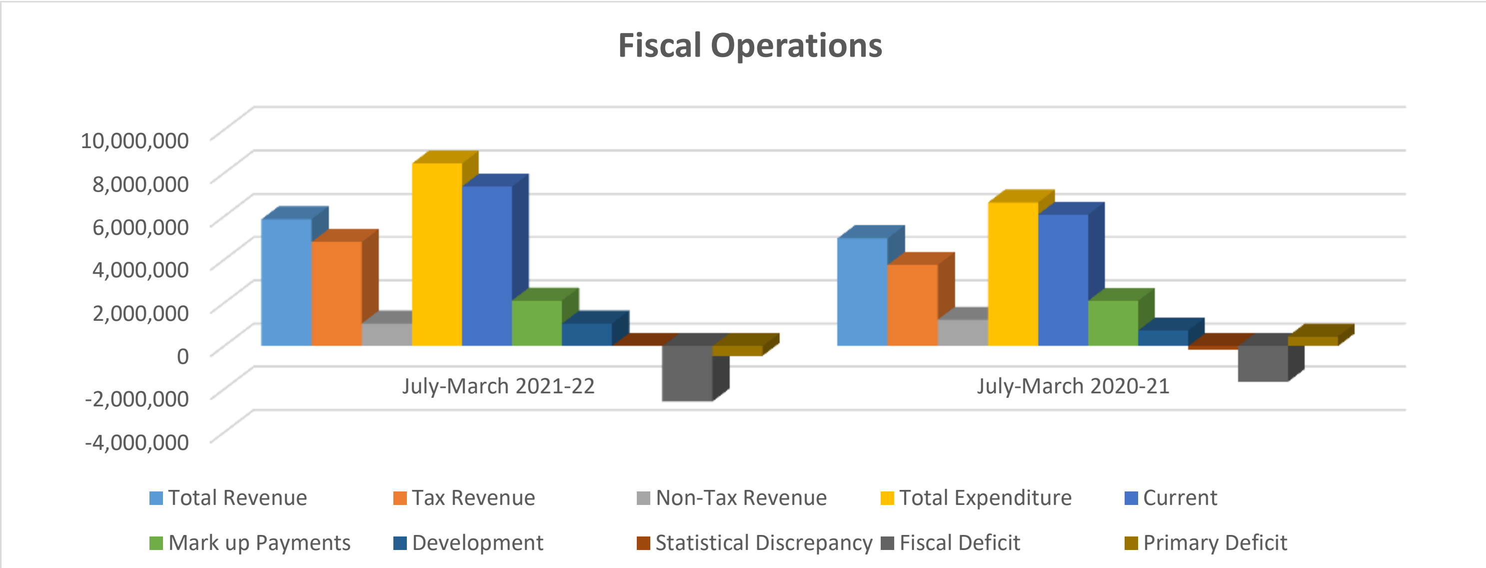


(PKR in million)	Monetary Impact since 1st July to	
	20-May-22	21-May-21
Borrowing for Budgetary support	1,625,154	1,765,189
Commodity Operations	90,565	281,431
Others	2,166	(4,591)
Net Government Sector Borrowing	1,717,885	2,042,029

Overall, the net Government sector borrowing stood at PKR 1,718 billion in the current fiscal year vs PKR 2,042 billion last year from 1st of July to 20th May FY22 and 21st May FY21 respectively.

11. Fiscal Operations:

As far as the fiscal operation of the economy of Pakistan is concerned, "let's decide once and for all, as to whether tax will derive the economy of Pakistan or whether the economy will derive the 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 external sector crisis while keeping buffers in place. As far as the recipe of Pakistan's economy is concerned, whilst having such a huge parallel base, and these policies of IMF through which more and more taxes are imposed, the wings of many concerned sectors have been clipped, as it pushed the economy in deep macroeconomic crisis for the last six months. Instead of targeting to enhance the tax base Government imposes more taxes on existing tax payer.



Consolidated Fiscal Operations			
PKR in Billion	**July-March**		**Percentage Change**
Fiscal-Side	**2021-22**	**2020-21**	
Total Revenue	**5,874,151**	**4,992,555**	**17.66%**
Tax Revenue	**4,821,904**	**3,765,002**	**28.07%**
Non-Tax Revenue	**1,052,247**	**1,227,554**	**(14.28%)**
Total Expenditure	**8,439,793**	**6,644,601**	**27.02%**
Current	**7,378,029**	**6,085,411**	**21.24%**
Mark up Payments	**2,118,481**	**2,103,858**	**0.70%**
Development	**1,051,099**	**722,947**	**45.39%**
Statistical Discrepancy	**10,665**	**(163,758)**	**(106.51%)**
Fiscal Deficit	**(2,565,642)**	**(1,652,046)**	**55.30%**
Primary Deficit	**(447,161)**	**451,812**	**(198.97%)**
			(Source: Finance Ministry)

(PKR. In Billion)	July-May 2021-22	July-May 2020-21	Percentage change Y/Y
FBR's Tax collection	5,349	4,164	28.46%
			(Source: FBR Press Release)

*FBR's actual tax Revenue during July-May 2020-21 are PKR 5,349 billion. The improved revenue performance is a reflection of growing economic activities in the country despite facing the global challenge of rising oil prices.

According to FBR's official press release, the FBR has thus far collected PKR 5.34 trillion during July-May 2020-21 vs PKR 4.16 trillion last year, which is 28% higher than last year. The FBR needs to collect PKR 751 million more in June 2022 to achieve the revised tax collection target set by the IMF, which stood at PKR 6.10 trillion (that was previously was PKR 5.83 trillion) for the outgoing fiscal year in its latest staff report released under $8 billion (previously USD 6 billion) EFF for Pakistan. Now we are down to the last month of the outgoing fiscal year, However, Pakistan faces a serious economic crisis from mid of March 2022 due to which FBR faced low collection in May 2022.

The IMF and Pakistan have reached a Staff-Level Agreement under the IMF's Extended Fund Facility which revived Pakistan's 'suspended' IMF program. The plan envisages FBR's tax collection target of PKR 7,250 billion for 2022-23 which would be 18.85% higher than revised tax revenue target for FY 2022 of PKR 6,100 billion and 25% higher than the likely achievable target of PKR 5,800 billion for FY 2022. If the inflation is projected at 11.5% and GDP growth at 5.0% in the upcoming fiscal year, then the FBR might easily collect PKR 6,757 billion worth of revenue. However, in our humble view the Government should collect PKR 7,500 billion worth target given the implementation of enhancing tax base. Pakistan has an excellent potential to enhance its tax revenue collection and can easily finance its debts and deficits. Unfortunately, Pakistan is facing a challenge of a huge parallel base economy, as approximately 43% of the nominal GDP is not contributing significantly towards the tax collection, such as traders and agriculturalists.

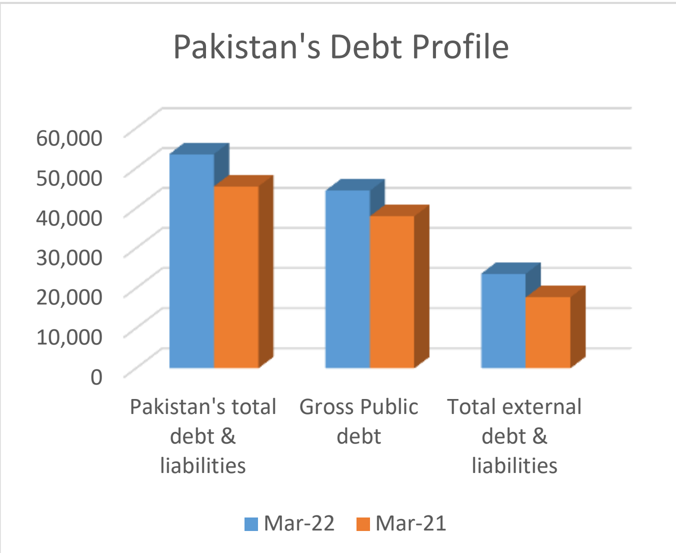
There is an urgent need to tap the potential of these sectors for their optimum contribution towards the National exchequer which will not only remove inequities in the tax regime, but will also provide much-needed additional revenue to the Government. Also, fulfilling IMF's condition of standard GST rate of 17% may prove to be counter-productive and will result in more inflation. Accordingly, in order to get rid of the debt burden, the FBR must pursue tax reforms, explore potential of key sectors which are not a part of any revenue collection. Furthermore, outsourcing of automation must 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.

Under the severe consequences of the pandemic, it will be a tough ask for the Government to accomplish the tax revenue target of PKR 7.25 trillion for FY23. 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 80% of GDP at the end of March 2022 as against 81% of GDP in the corresponding period last year. However, in nominal terms, it increased by almost 18%. The total debt and liabilities stood at PKR 54 trillion by the end of March 2022, compared to PKR 45 trillion at the end of March 2021 due to constrained fiscal space and swelling debt ratios.

Whereas, the Public debt of Pakistan consists of the domestic and external debt of the Government. Moreover, the debt owed to the IMF has spiraled up up by almost 17% from PKR 38 trillion to PKR 44 trillion, In order to control the swelling debt, the Government need to identify the reasons. The Policy should be to reduce the primary deficit as much as the Government can, the interest rate should be cut down to limit debt servicing, and manage external Balance of payment to avoid a rampant devaluation of domestic currency. Without effective public debt management, fiscal consolidation and consistent stabilization policies, Pakistan's debt sustainability is likely to remain a key concern for policy-makers. Pakistan's total debt and liabilities profile is provided hereunder:



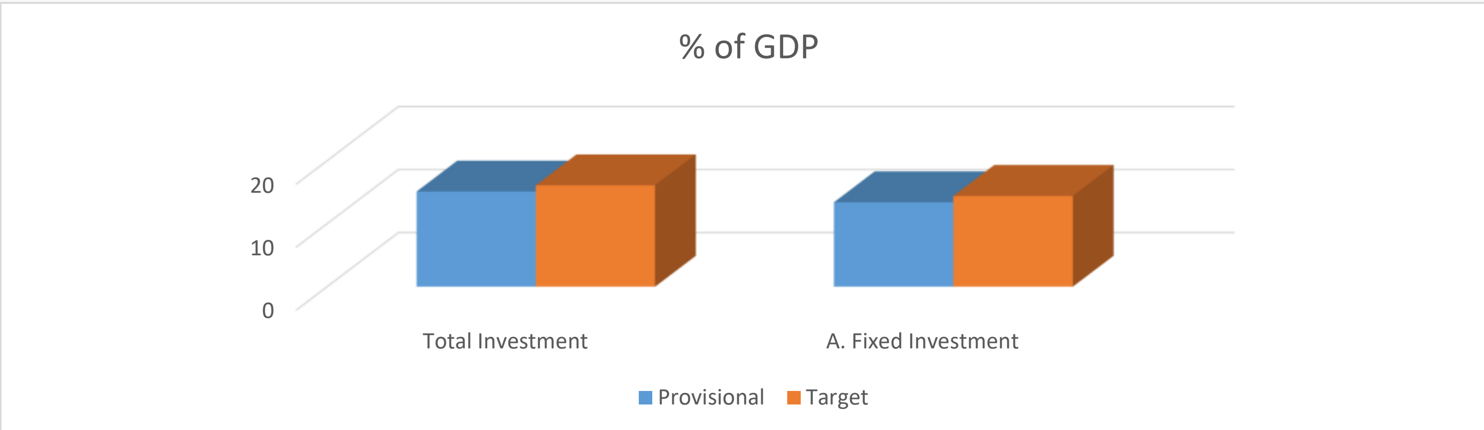
Pakistan's Total Debt & Liabilities			
(PKR in billion)	**Mar-22**	**Mar-21**	**% change**
Pakistan's total debt & liabilities	53,544	45,470	17.76%
% of GDP	80%	81%	
Gross Public debt	44,366	38,006	16.73%
% of GDP	66%	68%	
Total external debt & liabilities	23,659	17,749	33.30%
% of GDP	35%	32%	
Nominal GDP	66,950	55,796	
			Source: SBP

13. SAVINGS VERSUS INVESTMENT GAP 2021-22:

Investment-to-GDP ratio has slightly increased from 14.6% of GDP in 2020-21 to 15.1% in FY22 as per the report of the Planning commission, mainly because of increase in public investment which inched up from 3.0% to 3.4% of GDP in FY22. Furthermore, private investment stagnated at 10% of the GDP despite of a 20% increase in nominal terms. However, in real terms, private investment contracted marginally by 0.5%, mainly due to a 25% fall in investment related to electricity & gas distribution sector.

% of GDP(mp)	Fiscal Year 2022-23	Fiscal Year 2021-22	
	Target	Provisional	Target
Total Investment	14.7	15.1	16.1
A. Fixed Investment	13	13.4	14.4
i. Public	3.3	3.4	4.4
ii. Private	9.7	10	10
National savings	12.5	11.1	15.4
External resources inflow net	2.2	4.1	0.7
			(Source: Planning Commission)

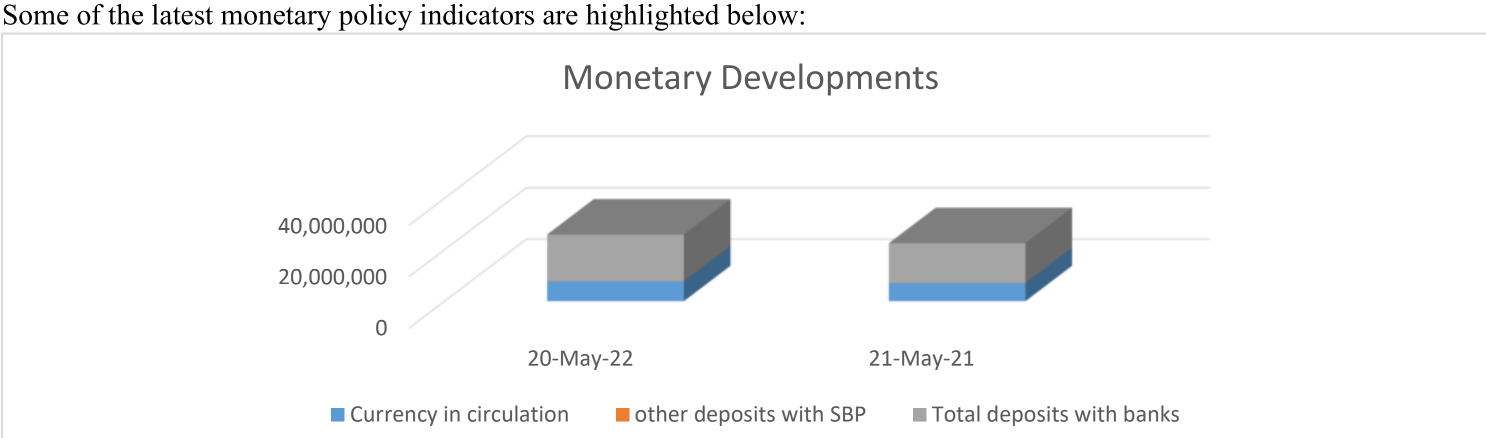
The Private investment increased by 49% in real terms in the construction sector because of the incentive package given by the Government. Public sector investment inched up to, while private sector investment share in GDP remained stationary at 10%.



14. MONETARY DEVELOPMENTS:

In FY22, the SBP has decided to raise the policy rate from 7% to 13.75% in the span of 12 months to control the soaring inflation. With a view to stimulate the external sector, the SBP maintained a tight Monetary Policy during most of the period of 2021-22 fiscal year, in order to counter the effects of rampant devaluation of domestic currency. However, currency devaluation remains out of control as the PKR steeply loses its value against the USD. In the meeting of the Monetary Policy Committee, it was noted that the current stance of monetary policy remains appropriate to control an overheated economy, 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. Money Supply ("M2") growth has slowed down to 6.68% during July 01, 2021-May 20, 2022 compared to 7.94% in the same period of last year. The contributions of Net Foreign Assets ("NFA") dragged down this overall M2 growth. The NFA contraction is basically a reflection of overall balance of payments situation where depletion of forex reserves is reflected in contraction of NFA by 200%.

Some of the latest monetary policy indicators are highlighted below:



(Million Rupees)	Monetary Impact since 1st July to	
Components	20-May-22	21-May-21
Currency in circulation	7,788,517	7,054,379
other deposits with SBP	89,430	63,345
Total deposits with banks	18,042,850	15,450,673
M2	**25,920,797**	**22,568,396**
Growth (As of 1st July)	6.68%	7.94%
		(Source: SBP)

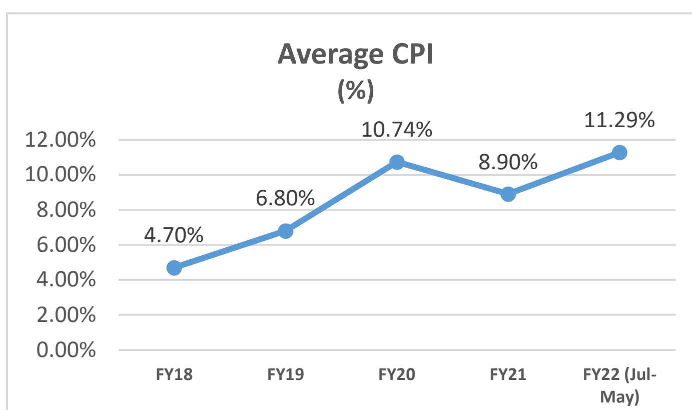
Period	Increase/-Decrease In (Rs in Billion)					
	Currency in circulation		Demand Deposits		Time Deposits	
	Total	Month Avg	Total	Month Avg	Total	Month Avg
July 2013 to June 2018	2,450	41	4,486	75	(127)	(2)
July 2018 to April 2022	2,873	64	6025	134	173	4

15. INFLATION

The inflation updates are as follows:

(Base year 2015-16) Period	CPI	Food		Core CPI	
	National	Urban	Rural	Urban	Rural
May-22	13.76	15.5	19	9.7	11.5
May-21	10.90	15.3	12.8	6.8	7.6
					(Source: PBS)

Period	CPI Inflation
FY22 (Jul-May)	11.29%
FY21	8.83%
FY20	10.74%
FY19	6.80%
FY18	4.70%
	(Source: SBP)



Across Pakistan, a surge in Inflation continues hitting the masses hard and making living standards vulnerable for most of the people. Pakistan's inflation rose to 13.76% in May 2022 when compared to 10.90% a year ago. The Average CPI inflation for July-May FY22 increased to 11.29% over July-May 2021-22. The average inflation since FY18 is as under:

Annexure I

S.No.	Country	CPI (%)	Policy Rate (%)	Real Interest rate (%)	Per Capita Income (Current USD)
1	Turkey	73.50	14.00	**(59.50)**	8,536
2	Argentina	58.00	49.00	**(9.00)**	8,579
3	Srilanka	39.10	13.50	**(25.60)**	3,681
4	Russia	17.10	11.00	**(6.10)**	10,127
5	Czech Republic	14.20	5.75	**(8.45)**	22,931
6	**Pakistan**	**13.76**	**13.75**	**(0.01)**	**1,798**
7	Egypt	13.10	11.25	**(1.85)**	3,569
8	Poland	13.90	6.00	**(7.90)**	15,742
9	Brazil	13.13	12.75	**(0.38)**	6,797
10	Chile	11.50	9.00	**(2.50)**	13,232
					(Source: World Bank, PBS & Trading Economics)

Annexure II

Comparison of Yields in Important Crops			
Crops	Pakistan	India	WorldWide
Wheat	1.16	4.4	4.64
Maize	2.27	3.42	7.39
Rice	0.99	4.72	5.65
Sugarcane	25.83	93.04	91.44
Cotton	0.75	1.15	2.65
			(Source: Our-World-in-Data and NAC)
****Comparison on base of 2018***			

Annexure III

Current USD	Pakistan	Philphines	India	Sri lanka	Bangladesh
Foreign Remittance per Worker	5,840	149,135	13,288	179,757	9,001
					(Source: World Bank and Pew Research Center)

Note: For an unbiased estimation remittance data taken from World Bank which has a base year of 2010. While Remittance per worker is calculated on the basis of population of foreign born (2017).

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