TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

PAKONOMICS

May 2022

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HIGHLIGHTS:

- According to the Planning Commission annual report for Fiscal year 2022-23 ("FY23"), the overall GDP growth is expected to slow down in 2022-23. The GDP growth of the country for 2022-23 is targeted at 5.0% out of which, agriculture, industry and services sector are expected to post a growth of 3.9%, 5.9% and 5.1% respectively.
- Moreover, Pakistan's CPI target for the FY23 has been forecasted at 11.5%, whereas, the Current Account Deficit target is contained at 2.2 % of GDP for the FY23.
- In the Inter-bank market, the National currency value stood at a PKR 205/USD as of 28th of June 2022 against the US dollar. The Pakistani rupee is recovering well in this week from a historic low level of PKR 210/USD, as per the exchange rate of the State Bank of Pakistan ("SBP").
- Pakistan's Large-Scale Manufacturing ("LSM") growth stood at 15.4% during April 2022 vs. last year. Whereas, on a Month-on-Month comparison ("M-o-M"), the LSM growth shrunk by 13.3% compared to the previous month of March 2022 (Base Year 2015-16),
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $4.356 billion at the end of May 2022.
- As per the SBP, remittances sent by Overseas Pakistani workers decreased by 25.36% on a M-o-M basis from $3.125 billion in April 2022 to $2.33 billion in May 2022.
- According to the official statistics, the Federal Board of Revenue ("FBR") has collected tax revenue worth PKR 5.35 trillion in Jul-May FY22 vs. PKR 4.16 trillion last year. This reflects a growth of almost 28.4% or PKR 1.085 trillion in the tax revenue collection in Jul-May FY22 vs. the same period last year.
- The net foreign currency reserves held by the SBP stood at $8.24 billion as of 17th June 2022.
- The Broad Money (M2) stock from 1st of July 2021 to 10th June 2022 is PKR 2,068 billion as compared to PKR 2,352 billion last year in same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 13.8% on a year-on-year ("Y-o-Y") basis in May 2022 vs. 10.9% last year.
- As per the PBS, Pakistan's Exports declined by 9.35% to $2.62 billion in May 2022 vs. $2.90 billion in April 2022 on a M-o-M basis.
- Pakistan's net FDI has depreciated by 5% or $82.4 million to $1.60 billion provisionally during Jul-May FY22, as compared to $1.68 billion during the same period in the preceding year.
- As per the SBP, the total Foreign Investment of the country has decreased to $1.59 billion during July-May FY22, compared to $3.85 billion in the same period last year.
- The country has posted a Current account deficit ("CAD") of a staggering $15.20 billion in the period Jul-May of FY22.

The outlook of the economy of Pakistan is as follows;

➢ ECONOMY AT A GLANCE

Economic Indicators	Period	Status	Current Year	Last Year
LSM (Base Year 2015-16)	April	↓	15.4%	72.7%
Central Government Debt	April	↑	PKR 43.70 Trillion	PKR 37.07 Trillion
Credit to Private Sector	Jul – 10th June	↑	PKR 1,381 Billion	PKR 458 Billion
Roshan Digital Account	May	↓	US$ 189 Million	US$ 197 Million
Worker's Remittances	May	↓	US $2,333 Million	US $2,490 Million
Currency in Circulation	As of 10th June	↑	PKR 7.72 Trillion	PKR 7.07 Trillion
Net Government Sector borrowing	Jul – 10th June	↑	PKR 2,795 billion	PKR 1,280 billion
National CPI (Base Year 2015-16)	May	↑	13.8%	10.9%
FBR Tax Collection	Jul-May	↑	PKR 5.35 Trillion	PKR 4.16 Trillion
Foreign Exchange Reserves with SBP	As of 17th June	↓	$8.24 Billion	$16.11 Billion
Foreign Direct Investments	Jul-May	↓	$1.60 Billion	$1.68 Billion
Trade Deficit in Goods	Jul-May	↑	US$ (43.42) Billion	US$ (27.45) Billion
Current Account Deficit	Jul-May	↑	$(15,199) Million	$(1,183) Million

1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a 15.40% growth in April 2022 on a Y-o-Y basis vs. April 2021 as per the new base 2015-16. While, on a M-o-M basis, the overall output declined by 13.30% compared to March 2022. During the Jul-April period of the ongoing fiscal year, the growth of large industries stood at a rate of 10.70%, while growth as per the old base year of 2005-06 is reported at 6.7%.

Out of 22 major industries, 17 industries posted a surge in production during the Jul-March period of FY22 as compared to last year. These include textile, Food, beverages, coke and petroleum products, Chemicals, wearing apparel, beverages, iron and steel products, automobiles, tobacco, paper and board, pharmaceutical, Electrical equipment, leather products, wood products, machinery equipment's, furniture industry, other sports industries, and Computer and optical products. However, the output in non-metallic mineral products, rubber products, other transport equipment, and fabricated metal has decreased during Jul-April FY22 of the ongoing year under review, compared to the preceding year, data from the PBS revealed.

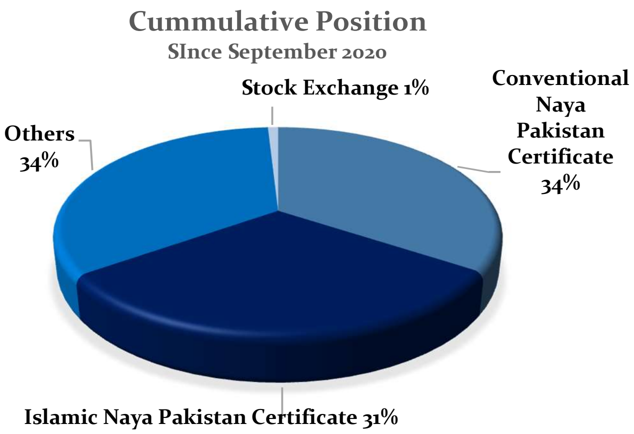
Sector-wise, important groups such as sugar, cotton yarn, and cotton cloth rose by 39.4%, 0.6%, and 0.3%, respectively in the period of July-April FY22. Whereas, the cement industry declined by 4.6%.

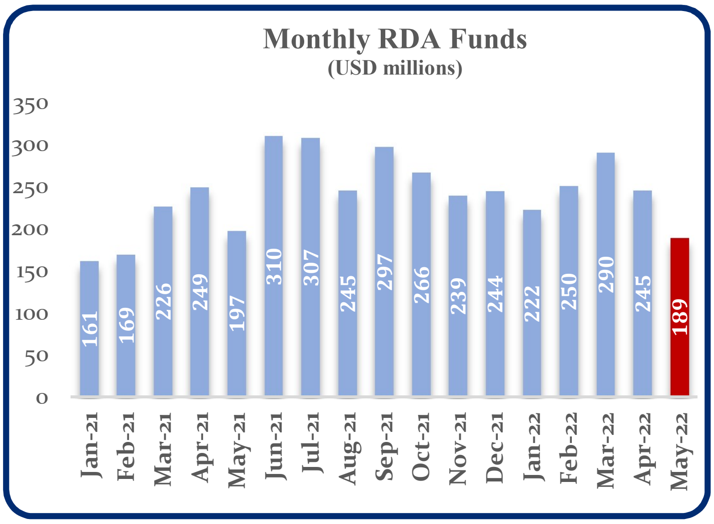
LSM (%)	Weight	April-22	March-22	April-21	July-April 2021-22	Y/Y growth Cumulative
Textile	**18.2**	7.7	5.1	201.4	**3.7**	**0.8**
Food	**10.7**	5.8	85.0	(3.5)	**11.0**	**2.0**
Coke & Petroleum Products	**6.7**	(5.1)	8.1	85.9	**1.1**	**0.1**
Chemicals	**6.5**	10.5	17.0	29.5	**8.3**	**0.6**
Wearing Apparel	**6.1**	106.2	78.6	198.8	**41.1**	**3.2**
Pharmaceuticals	**5.2**	35.3	12.6	4.1	**3.2**	**0.2**
Non-Metallic Minerals Products	**5.0**	(12.6)	4.2	26.4	**(0.3)**	**0.0**
Beverages	**3.8**	5.7	(6.0)	13.3	**1.5**	**0.1**
Iron and Steel Products	**3.4**	13.8	11.2	1,373	**16.3**	**0.7**
Automobiles	**3.1**	27.4	25.8	90,521	**48.2**	**1.3**
Tobacco	**2.1**	(3.0)	(1.4)	37.8	**14.5**	**0.3**
Electrical Equipment	**2.0**	8.7	(1.5)	185.5	**0.3**	**0.0**
Paper & Board	**1.6**	3.6	11.6	34.8	**8.2**	**0.2**
Leather Products	**1.2**	(2.6)	(7.6)	110.7	**1.6**	**0.0**
Other Transport Equipment	**0.7**	(11.5)	(11.7)	27,797	**(10.9)**	**(0.1)**
LSM Growth for April 2022 (Y/Y)						**15.40%**
LSM Growth of April 2022 vs. March 2022 (M/M)						**(13.30)%**
LSM Growth for July-April 2021-22 (Y/Y)						**10.70%**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $4.356 billion since its announcement in September 2020. Out of the $4.356 billion, around two-thirds, $2.84 billion or 65% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 416,837 accounts have been opened from 175 countries during the 21 months.



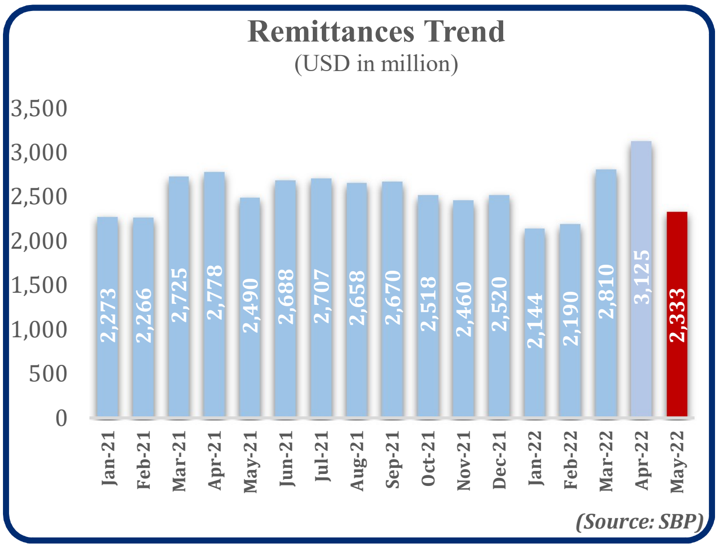


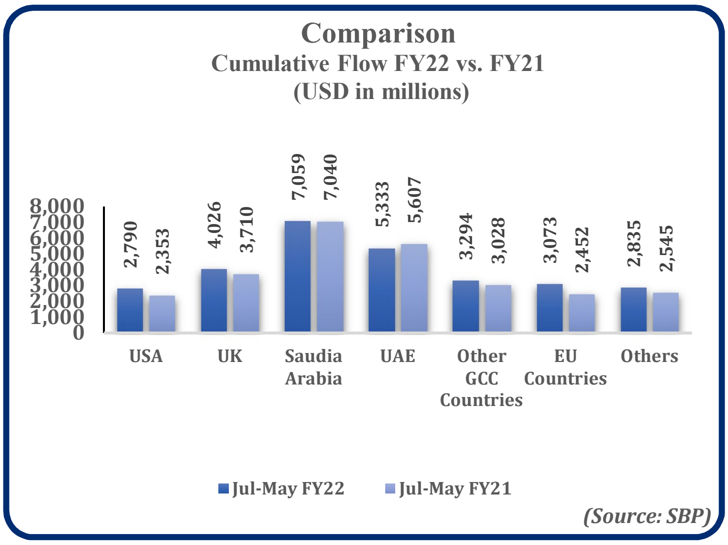
(Source: SBP)

3. WORKER’S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers decreased by 25.36% to $2.33 billion in May 2022 vs. $3.125 billion in April 2022 on a M-o-M basis. However, in the Jul-May period of FY22, the inflows surged by 6.26% to $28.41 billion compared to $26.74 billion received a year ago in the same period. However, the pace of growth is much slower than the last FY21’s period Jul-May, where it grew by 29%. Similarly, on a Y-o-Y basis, the monthly flows plunged by almost 7% as compared to May 2021.

A descriptive analysis revealed that remittances inflows during the period of Jul-May 2022 were mainly coming from four major territories: Saudi Arabia, UAE, UK, and the USA. With almost a 25% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflow from the Saudi Arabia have a low growth of 0.27% to $7.1 billion in Jul-May FY22 vs. $7.0 billion during the same period in FY21. An amount to the tune of $2.79 billion, or a 9.82% share, was received from the US, showing a rise of 18.55% in Jul-May FY22 vs. the same period in the previous year. Worker remittances from the UK also increased by 8.5% and contributed almost 14.17% or 4.03 billion in Jul-May FY22. Likewise, remittance growth from UAE declined at a rate of almost 5%, while its share is $5.33 billion or 18.77% in the total remittances.

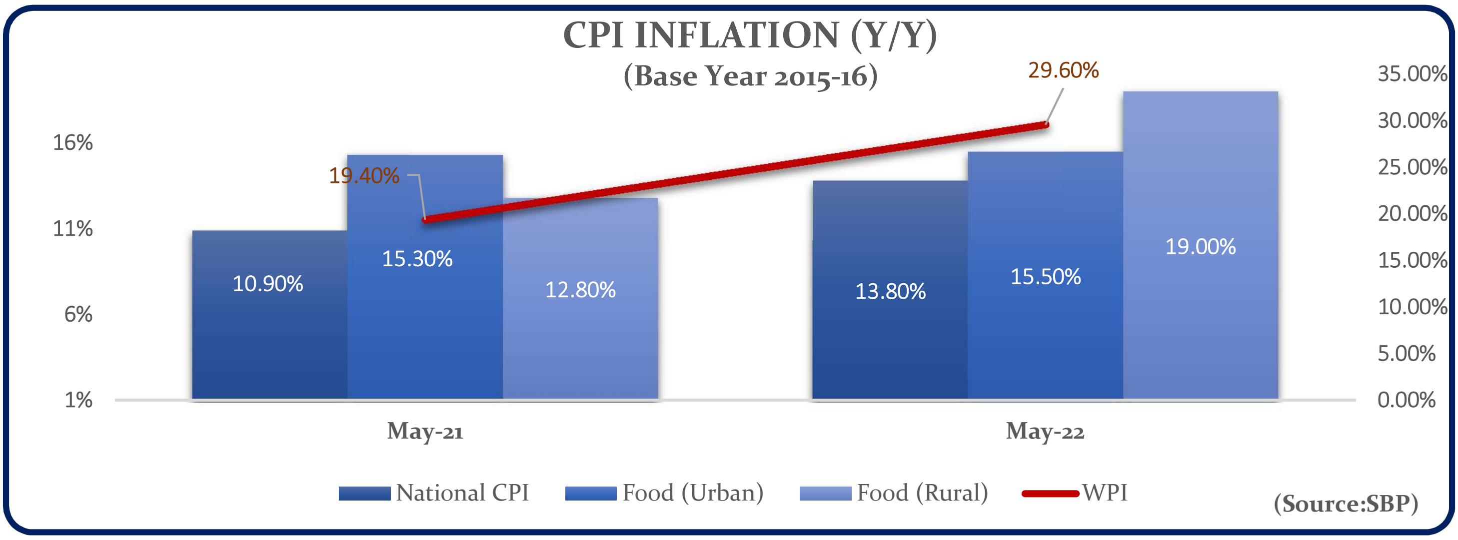




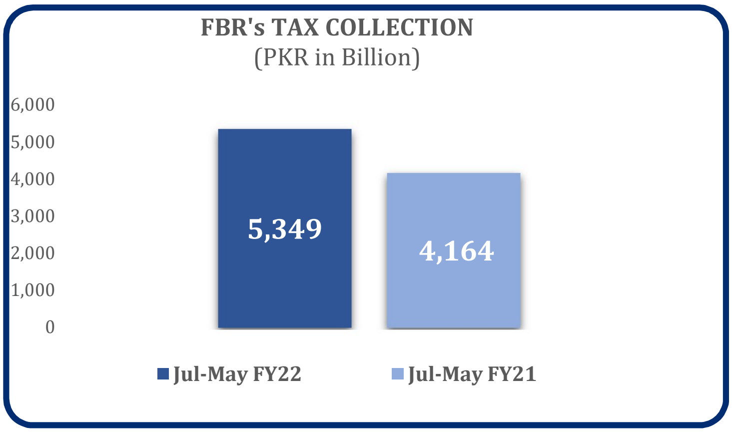
4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation was recorded at 13.8% in May 2022 on a Y-o-Y basis, which is the highest inflation in last 2.5 years. The pace of inflation might persist in double digits in the coming months due to political instability and the currency parity decline. In addition to that, the wholesale price index (“WPI”) stood at 29.6% on a Y-o-Y basis. Similarly, on a monthly basis, the National CPI has recorded a rise of 0.4%. Moreover, the Food inflation in urban and rural increased by 1.0% and 1.3%, respectively, comparing to April 2022.

During May 2022, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 9.7% and 11.5% in urban and rural areas, respectively.



5. FBR TAX REVENUE COLLECTION:

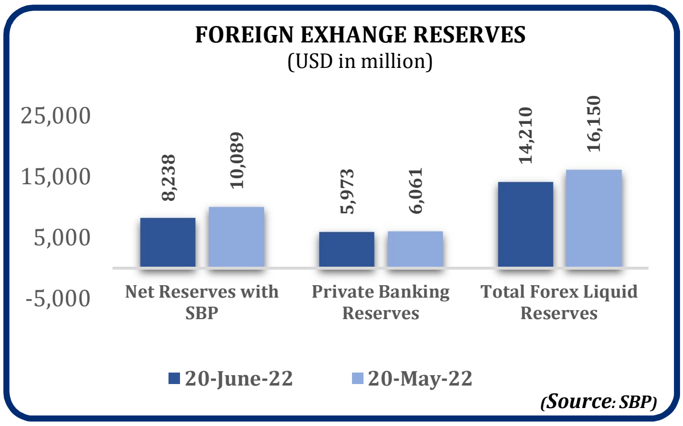


As per the official statistics published by the FBR, the FBR has provisionally collected tax revenue worth PKR 490 billion in May 2022 vs. PKR 387 billion in the same month last year, thereby announcing a rise of 26.8%. In the Jul-May period of FY22, FBR's tax revenue grew by 28.4% or PKR 1,085 billion vs. last year. Moreover, the FBR needs to collect PKR 651 billion to surpass its annual revised target of PKR 6 trillion. As per Mr. Shahbaz Rana's article titled "FBR collects Rs5.4tr in taxes" published on 1st June 2022 in the Express Tribune, from the total tax collection, PKR 3.44tr is collected from indirect sources having a share of 64.5%, similarly 2.8tr or 52% were collected at import stage. Whereas, the income tax collection is PKR 1.90 trillion.

6. FOREIGN EXCHANGE RESERVES:

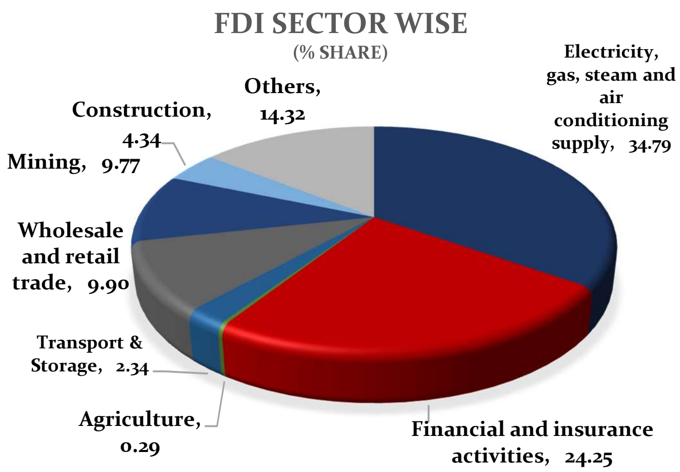
The net reserves of the SBP stood at \$8.24 billion as of 17th June 2022, declining by 8.32% compared with \$8.985 billion on June 10th. The SBP cited "external debt repayment" as the reason behind the decline in reserves. However, the SBP net reserves are expected to rise on realization of the proceeding of China Development Bank loan.

Since reaching the \$17.34 billion mark in the first week of Feb 2022 (on the back of the receipt of \$1.05 billion under the Extended Fund Facility programme of the IMF and Pakistan International Sukuk Bond issuance of \$1 Billion), the Net foreign exchange reserves are on the verge of declining.

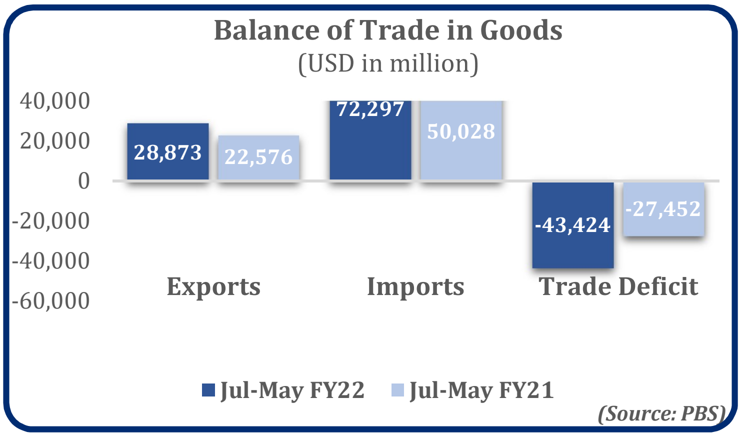


FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 5% or \$82.4 million to \$1.60 billion provisionally during Jul-May FY22, as compared to \$1.68 billion during the same period in the preceding year. As per the SBP, the total Foreign Investment of the country has decreased to \$1.59 billion during July-May FY22, compared to \$3.85 billion in the same period last year. Whereas, the Foreign Investment declined by 172 million to \$16 million on a Y-o-Y basis in May 2022 as against the amount of \$188 million in May 2021. This Pie chart shows the percentage share of flows in different sectors of the Economy for the period Jul-May FY22.



7. BALANCE OF TRADE IN GOODS:



As per the PBS, Pakistan's trade deficit widened by a whopping 58% to \$43.42 billion during the period Jul-May FY22 vs. Jul-May FY21 amidst higher import prices. As far as Exports are concerned, the same increased by 27.89% to USD 28.87 billion in FY22 compared to USD 22.58 billion in FY21. However, the exports decreased by a margin of 9.35% to \$2.62 billion in May 2022 vs. April 2022 on a M-o-M basis. Addionally, the country's trade deficit rose by 10.3% to \$4.15 billion during May 2022, compared to \$3.76 billion in April 2022. Likewise on a Y-o-Y basis, the trade deficit is also higher by a margin of 14.48% vs. \$3.62 billion in the same month of last FY21.

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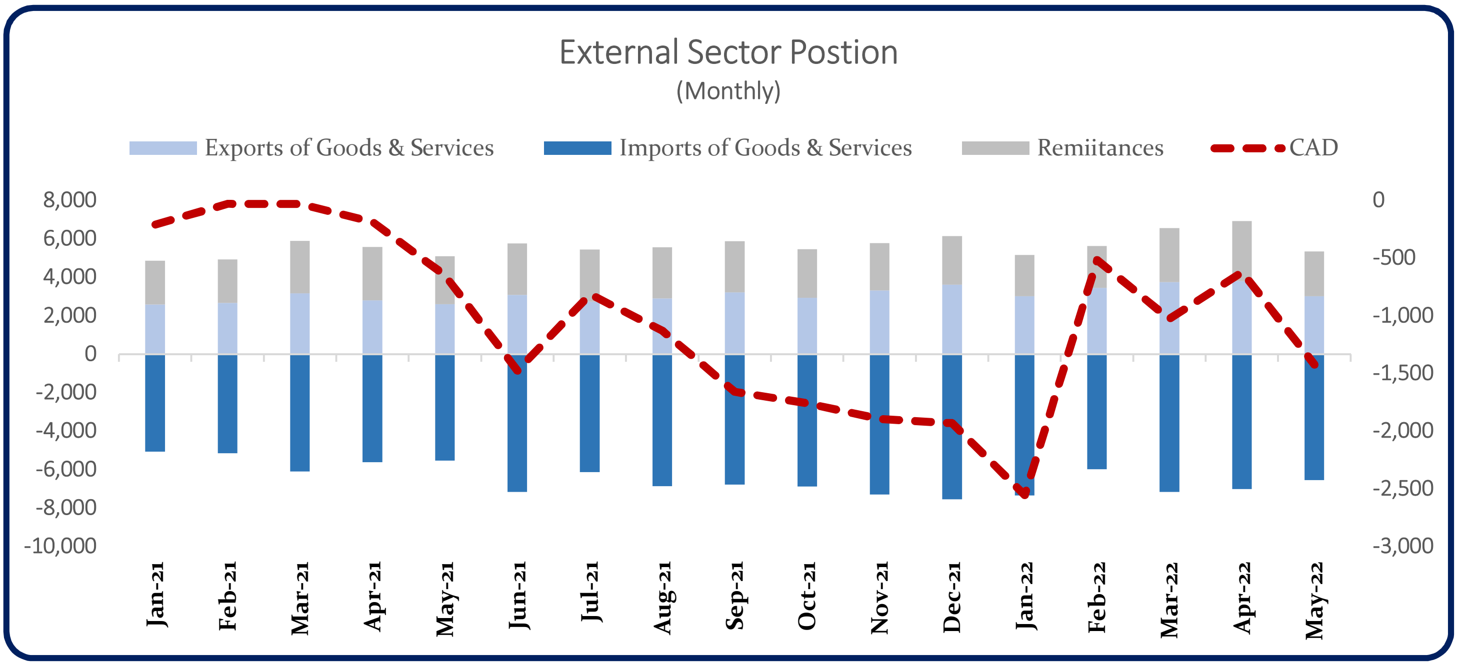
8. BALANCE OF PAYMENT:

Pakistan's CAD gap has widened by $1,425 million in May 2022 as compared to a deficit of $618 million in the last month of April 2022. On a Y-o-Y basis, the CAD rose by $785 million compare to a deficit of $640 in May 2021. On a cumulative basis, from July to May in the ongoing FY22, the CAD soared to $15.20 billion, compared to a minor deficit of $1.18 billion in the same period last year. We hope that for future, CAD may remain controllable due to the high measures that have been taken this month to curb unnecessary imports, which will make the position better for the new regime to settle the external sector position of Pakistan in the upcoming FY23.

(USD in millions)	July-May FY22 P	July-May FY21
Current account Balance	(15,199)	(1,183)
Capital Account Balance	188	202
Financial Account Balance	(8,448)	(5,731)
Net FDI in Pakistan	(1,504)	(1,535)
Net Portfolio investment	(16)	(2,200)
Net incurrence of Liabilities	9,028	3,376
Overall Balance	6,950	(3,935)
SBP Gross Reserve	9,619	16,300

(Source: SBP)

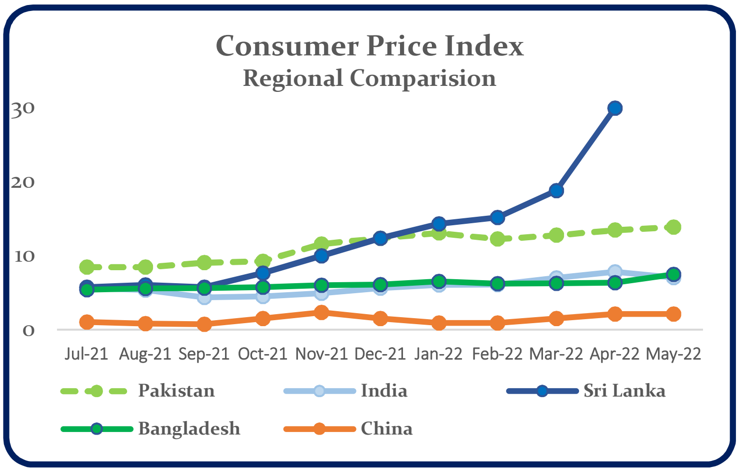


9. Regional Analysis:

On a Y-o-Y basis, the inflation impact in the region is mostly observed in Pakistan and Srilanka. Both the countries are facing rampant devaluation of their domestic currency which is ultimately one of the core reasons for higher inflation in Pakistan and Sri Lanka. On the other hand, Bangladesh, India and China have low CPI as compare to Pakistan and Sri lanka, and the impact of volatility in prices is not quite visible in their country due to their stable currency parity. All five regional countries, mostly imported identical products and face similar prices, except for China that has its own efficient products.

Country	CPI (%)	Local Currency Units per USD (As of 28th June)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	13.8	205.5	(30.45)
India	7.0	78.9	(6.20)
Bangladesh	7.4	93.4	(10.31)
China	2.1	6.7	(3.40)
Sri Lanka	39.1	356.0	(78.75)

(Source: Trading Economics)



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OUTLOOK:

- As per the SBP press release, Pakistan's citizens employed abroad sent lower remittances home mostly due to the usual seasonal post-Eid decline and associated long holiday. Similarly, Foreign exchange inflows subject to RDA fell almost 23% on a monthly basis. This makes the situation more difficult for Pakistan to contain the ballooning deficits. Furthermore, the economy of Pakistan is facing an External sector crisis with the net SBP foreign exchange reserves falling to USD 8.24 billion, enough to cover only 1.26 months (as per past evidence) of import payments. However, China's Development loan and the IMF loan tranche will provide much needed space to ease the pressure on the external sector and domestic currency in coming months.
- Earlier this week, the IMF has sent its Memorandum of Economic and Financial Policies ("MEFP") draft to Pakistan for the combine 7th and 8th review of the $6 billion IMF Programme which was halted due to the deviation from commitments in policies by the previous government. The MEFP document includes structural bench marks and policy actions in which both parties have to mutually agree to proceed further the loan tranche in July 2022.
- Following the agreement with the IMF, the size of the total expenditure has been revised up to PKR 9.9tr from PKR 9.5tr. Likewise, FBR tax collection target has been revised up to PKR 7.47tr from PKR 7tr which was previously stated in Budget document 2022-23, considering the fact that, the Government has now agreed to gradually increase petroleum levy by 50 rupees and reinstate income bracket of PKR 100,000 into tax slabs.
- Government decision of implementing "Super Tax" (also being referred to as the "Poverty Alleviation Tax") will not impact directly to the poorer class nor will it impact inflation as it is a one-time direct tax imposed on the income of High Net-worth individuals and companies that have earned a sizeable income for the Tax Year 2022. Therefore, it is a suitable way to enhance income tax collection share in total tax revenues and to provide much relief to the fiscal side of the economy and eventually to the poorer masses.
- In this havoc like situation, Pakistan badly needs to streamline its taxation system to attain a tax target worth of 7.440 trillion rupee for the next fiscal year. The Government needs to correct the fractured system of taxation and should remedy the inequity of taxes in Pakistan.
- 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.
- Overall, Pakistan economic targets for upcoming fiscal year has been formulated in a politically constrained environment while under pressure from the IMF. A number of problematic indicators have been identified above. Given the continuing negative developments in the global economy, especially volatility in oil market and other essential commodity prices, we hope that the IMF will show some understanding and support Pakistan at a time when the country is in a very fragile economic situation.