TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

PAKONOMICS

March 2022

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HIGHLIGHTS:

- As per the new Minister for Finance and Revenue, the International Monetary fund ("IMF") has agreed to continue Pakistan's ongoing Extended Fund Facility (EFF) programme. In the next month, the IMF team will visit Pakistan to discuss the Staff level agreement.
- In the Inter-bank market, the National currency value stood at a level of PKR 185.75/USD as of 25th of April 2022 against the US dollar. In the past two weeks, the currency parity went down to a historic low level of PKR 189/USD, as per the exchange rate of the State Bank of Pakistan ("SBP").
- Pakistan's Large-Scale Manufacturing ("LSM") growth stood at 8.60% during February 2022 vs. last year. Whereas, on a Month-on-Month comparison ("M-o-M"), the LSM growth stood at 0.30% compared to the previous month of January 2022 (Base Year 2015-16),
- The cumulative inflows of deposits in the Roshan Digital Accounts ("RDA") reached $3.92 billion at the end of March 2022.
- As per the State Bank of Pakistan ("SBP"), remittances sent by Overseas Pakistani workers increased by 28.3% on a M-o-M basis to $2.82 billion in March 2022, from $2.19 billion in February 2022.
- According to the official statistics, the Federal Board of Revenue ("FBR") has collected tax revenue worth PKR 4.382 trillion in Jul-March FY22 vs. PKR 3.394 trillion last year. This reflects a growth of almost 29.10% or PKR 998 billion in the tax revenue collection in Jul-March FY22 vs. the same period last year.
- The foreign currency net reserves held by the SBP stood at $10.88 billion as of 16th April 2022.
- The Broad Money (M2) stock from 1st of July 2021 to 8th April 2022 is PKR 730 billion as compared to PKR 1,291 billion last year in same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 12.70% on a year-on-year ("Y-o-Y") basis in March 2022 vs. 9.10% last year.
- As per the PBS, Pakistan's Exports plunged by 1.83% to $2.78 billion in March 2022 vs. $2.82 billion in February 2022 on a M-o-M basis.
- During July-March FY22, Pakistan's net FDI has depreciated by 2.0% or $26 million to $1.28 billion as compared to $1.31 billion in the same period in the previous year.
- As per the SBP, the total Foreign Investment of the country has increased to $1.45 billion during Jul-March FY22 as compared to $1.04 billion same months in the preceding year.
- The country posted a Current account deficit ("CAD") of a staggering $13.169 billion in the period Jul-March 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)	February	↑	8.60%	4.50%
Central Government Debt	February	↑	PKR 42.76 Trillion	PKR 36.63 Trillion
Credit to Private Sector	Jul – 8th April	↑	PKR 1,188 Billion	PKR 400 Billion
Roshan Digital Account	March	↑	US$ 290 Million	US$ 226 Million
Worker's Remittances	March	↑	US $2,810 Million	US $2,725 Million
Currency in Circulation	As of 8th April	↑	PKR 7.52 Trillion	PKR 6.73 Trillion
Net Government Sector borrowing	Jul – 8th April	↑	PKR (1,082) billion	PKR 162 billion
National CPI (Base Year 2015-16)	March	↑	12.70%	9.10%
FBR Tax Collection	Jul-March	↑	PKR 4.382 Trillion	PKR 3.394 Trillion
Foreign Exchange Reserves with SBP	As of 16th April	↓	$10.88 Billion	$16.10 Billion
Foreign Direct Investments	Jul-March	↓	$1.28 Billion	$1.31 Billion
Trade Deficit in Goods	Jul-March	↑	US$ (35.52) Billion	US$ (20.80) Billion
Current Account Deficit	Jul-March	↑	$(13,169) Million	$(275) Million

1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector growth increased by 8.60% in February 2022 on a Y-o-Y basis vs. February 2021 as per the new base 2015-16. During the eight months period of the ongoing fiscal year, the growth of large industries stood at a rate of 7.80%, while growth as per the old base year of 2005-06 reported at 4.6%. Similarly, on a M-o-M basis, the overall output rose by only 0.3% over January 2022.

Out of 22 major industries, 18 industries posted a surge in production during the Jul-Feb period of FY22 as compared to last year. These include textile, Food, beverages, coke and petroleum products, Chemicals, wearing apparel, non-metallic mineral products, beverages, iron and steel products, automobiles, tobacco, paper and board, leather products, wood products, machinery equipment's, furniture industry, other sports industries, and Computer and optical products. However, the output in pharmaceutical, Electrical equipment, rubber products, other transport equipment, and fabricated metal has decreased during Jul-Feb FY22 of the ongoing year under review, compared to the preceding year, data from the PBS revealed.

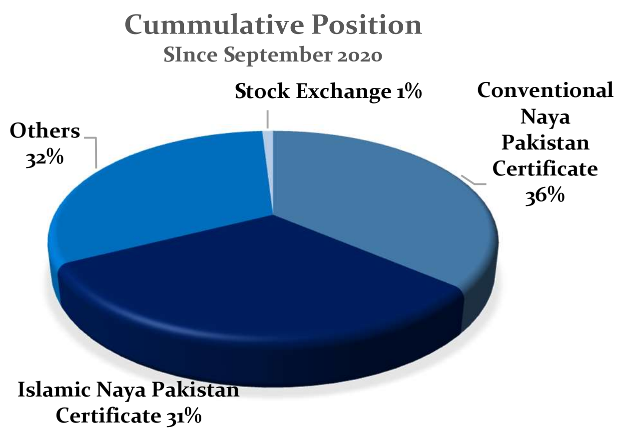
Sector-wise, other production industries, such as Cement output declined by 3.0% in the period of July-Feb FY22.

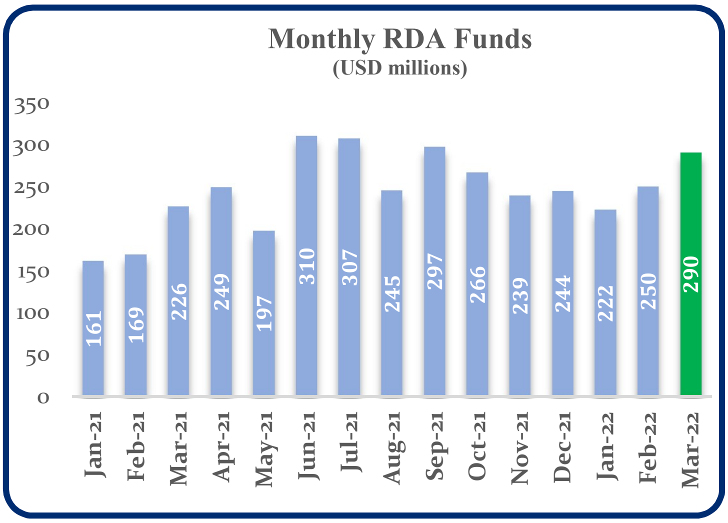
LSM (%)	Weight	Feb-22	Jan-22	Feb-21	July-Feb 2021-22	Y/Y growth Cumulative
Textile	**18.2**	3.2	0.0	4.4	**2.9**	**0.6**
Food	**10.7**	1.5	9.9	17.6	**3.3**	**0.6**
Coke & Petroleum Products	**6.7**	6.8	(1.0)	41.8	**1.2**	**0.1**
Chemicals	**6.5**	18.8	19.6	2.8	**7.1**	**0.5**
Wearing Apparel	**6.1**	36.6	7.4	(34.9)	**20.6**	**1.6**
Pharmaceuticals	**5.2**	5.2	5.8	8.7	**(2.3)**	**(0.1)**
Non-Metallic Minerals Products	**5.0**	5.5	(10.7)	4.9	**0.6**	**0.0**
Beverages	**3.8**	(10.8)	(11.8)	10.6	**1.7**	**0.1**
Iron and Steel Products	**3.4**	15.5	12.9	(11.3)	**17.3**	**0.8**
Automobiles	**3.1**	38.1	37.0	30.8	**59.8**	**1.6**
Tobacco	**2.1**	4.1	23.4	(0.9)	**19.6**	**0.4**
Electrical Equipment	**2.0**	7.5	9.0	(19.0)	**(1.1)**	**0.0**
Paper & Board	**1.6**	7.0	7.7	(4.8)	**8.0**	**0.2**
Leather Products	**1.2**	(7.2)	(3.9)	(30.6)	**3.1**	**0.0**
Other Transport Equipment	**0.7**	6.0	(3.3)	12.4	**(1.9)**	**0.0**
LSM Growth for February 2022 (Y/Y)						**8.60%**
LSM Growth for Feb 2022 vs. Jan 2022 (M/M)						**0.30%**
LSM Growth for July-Feb 2021-22 (Y/Y)						**7.80%**

(Source: PBS)

2. Roshan Digital Account ("RDA"):

The cumulative inflows of deposits under the RDA reached $3.92 billion since its announcement in September 2020. Out of the $3.92 billion, over two-thirds, $2.494 billion or 67.5% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 388,494 accounts have been opened from 175 countries during the 19 months.



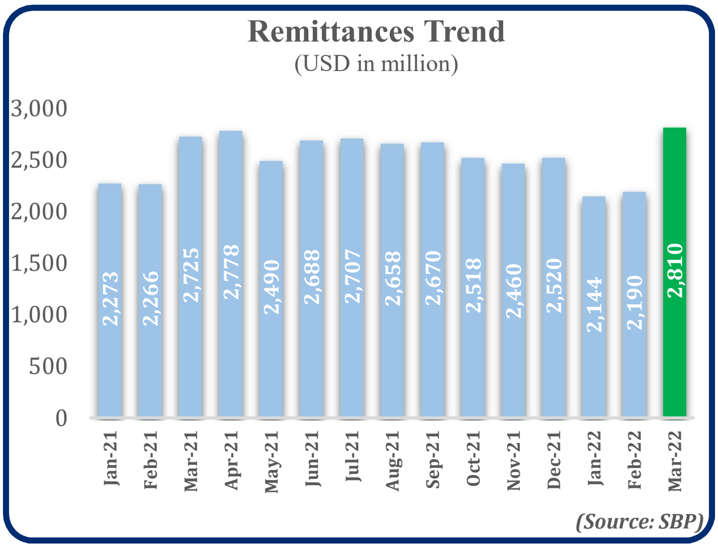


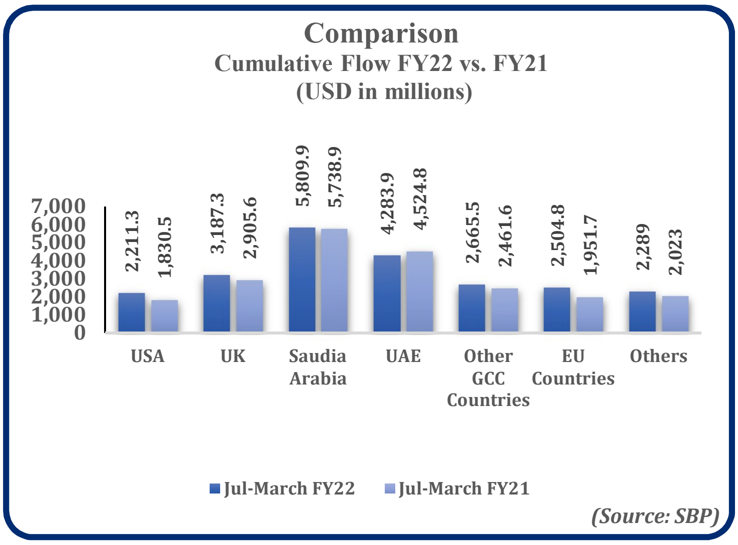
(Source: SBP)

3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers increased by 28.3% to $2.8 billion in March 2022 vs. $2.19 billion in February 2022 on a M-o-M basis. However, in Jul-March period of FY22, inflows surged by 7.10% to $22.95 billion compared to $21.44 billion received a year ago in the same period. Although pace of growth is much slower than the last FY21's period Jul-March, where it grew by 26%. Similarly, on a Y-o-Y basis, monthly flows rose by 3.20% as compared to March 2021.

A descriptive analysis revealed that remittances inflows during the month of March 2022 were mainly coming from four major territories: Saudi Arabia, UAE, UK, and the USA. With more than 25% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflow from the Saudi Arabia have a low growth of 1.2% to $5.8 billion in Jul-March FY22 vs. $5.74 billion during the same period in FY21. An amount to the tune of $2.2 billion, or a 9.63% share, was received from the US, showing a rise of 20.8% in Jul-March FY22 vs. the same period in the previous year. Worker remittances from the UK also increased by 9.70% and contributed almost 13.89% or 3.19 billion in Jul-March FY22. Likewise, remittance growth from UAE declined at a rate of 5.30%, while its share is $4.28 billion or 18.66% in the total remittances.

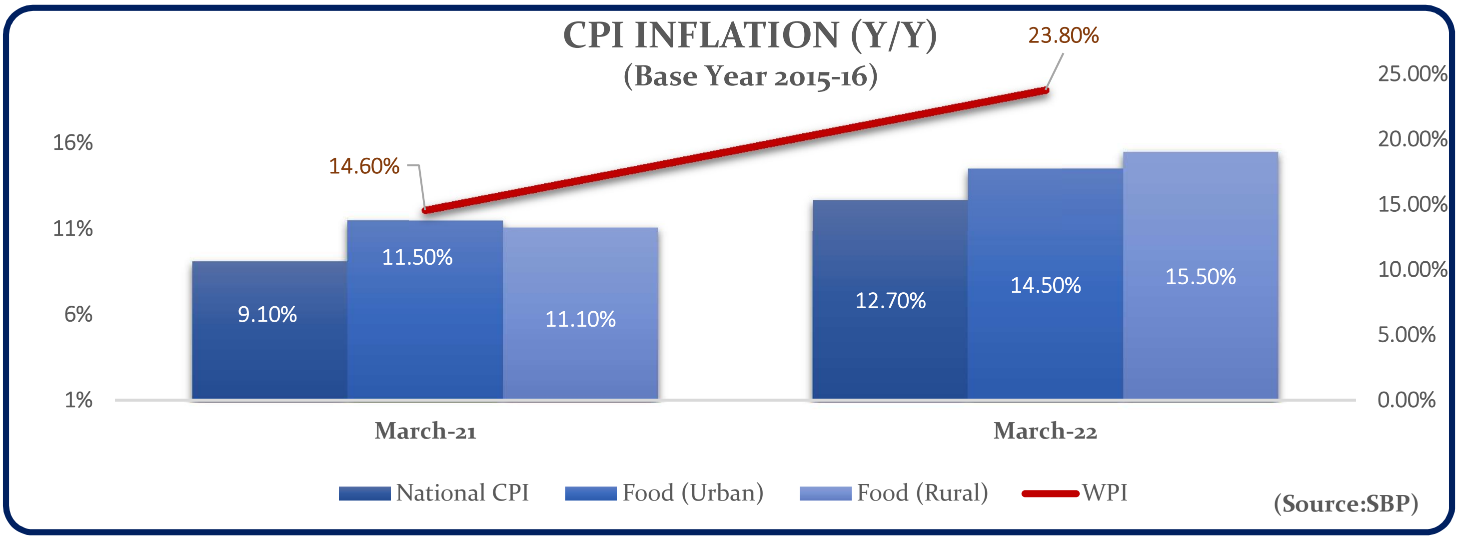




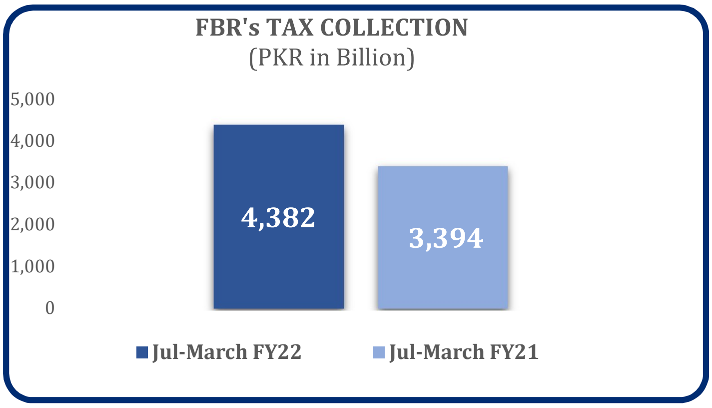
4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation was recorded at 12.7% in March 2022 on a Y-o-Y basis, strikingly higher as compared to the same month of FY21. The pace of inflation might be persist in double digits in coming months due to a volatile situation in the international oil market and the currency parity decline. In addition to that, the wholesale price index ("WPI") stood at 23.8% on a Y-o-Y basis. Similarly, on a monthly basis, the National CPI has recorded a rise of 0.8%. Moreover, Food inflation in urban and rural increased by 1.8% and 2.3%, respectively, comparing to February 2022.

During March 2022, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 8.9% and 10.3% in urban and rural areas, respectively.



5. FBR TAX REVENUE COLLECTION:

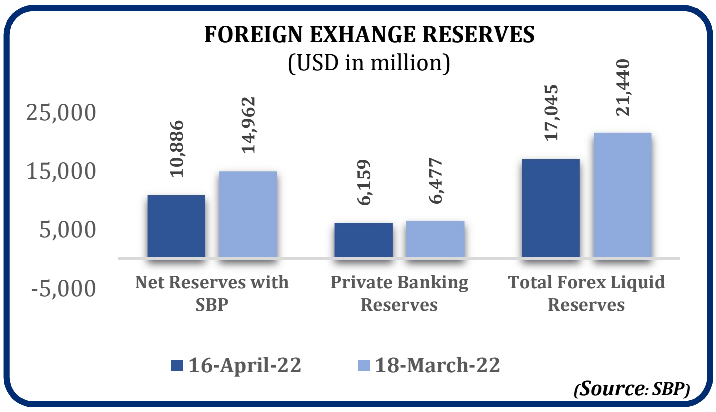


As per the official statistics published by the FBR, the FBR has provisionally collected tax revenue worth PKR 575 billion in March 2022 vs. PKR 477 billion in the same month last year, thereby announcing a rise of 20.5%. In the Jul-March period of FY22, FBR's tax revenue grew by 29.10% or PKR 988 billion vs. last year. Moreover, the FBR failed to surpass its March 2022 target of PKR 604 billion. As per Mr. Shahbaz Rana's article titled "FBR misses March tax target" published on 1st April 2022 in the Express Tribune, from the total tax collection, PKR 2.8tr is collected from indirect sources having a share of 64%, similarly 2.25tr or 52% were collected at import stage. Whereas, the income tax collection is PKR 1.57 trillion.

6. FOREIGN EXCHANGE RESERVES:

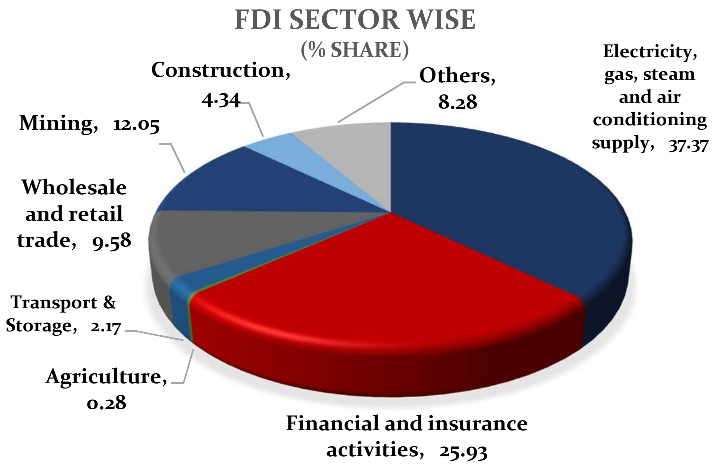
The net reserves of the SBP stood at $10.88 billion as of 16th April 2022, rise by 0.33% compared with $10.85 billion on April 8th. The SBP cited no reason behind the increased in reserves.

Since reaching $17.34 billion mark in first week of Feb 2022 (on the back of the receipt of $1,053 million under the Extended Fund Facility programme of the IMF and Pakistan International Sukuk Bond issuance of $1,000 million). The Net reserves are on the verge of declining.

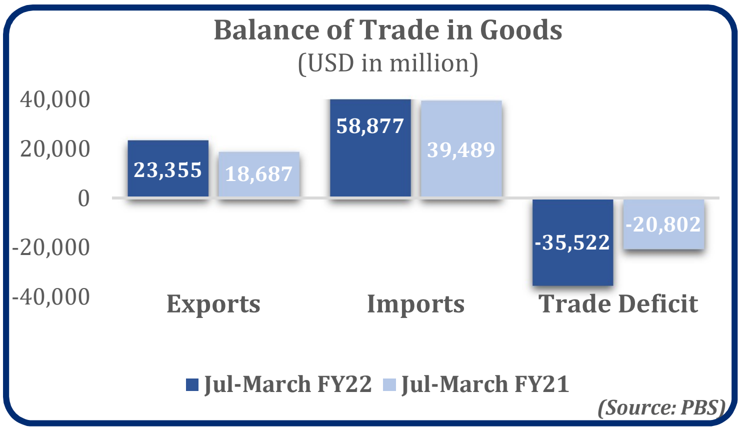


7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 2.0% or $26 million to $1.285 billion provisionally during Jul-March FY22, as compared to $1.31 billion during the same period in the preceding year. As per the SBP, the total Foreign Investment of the country has increased to $1.45 billion during July-March FY22, compared to $1.04 billion in the same period last year. Whereas, the Foreign Investment declined by a massive 258% to $(402.2) million on a Y-o-Y basis in March 2022 as against the amount of $128.6 million in March 2022. This Pie chart shows the percentage share of flows in different sectors of the Economy for the period Jul-March FY22.



8. BALANCE OF TRADE IN GOODS:

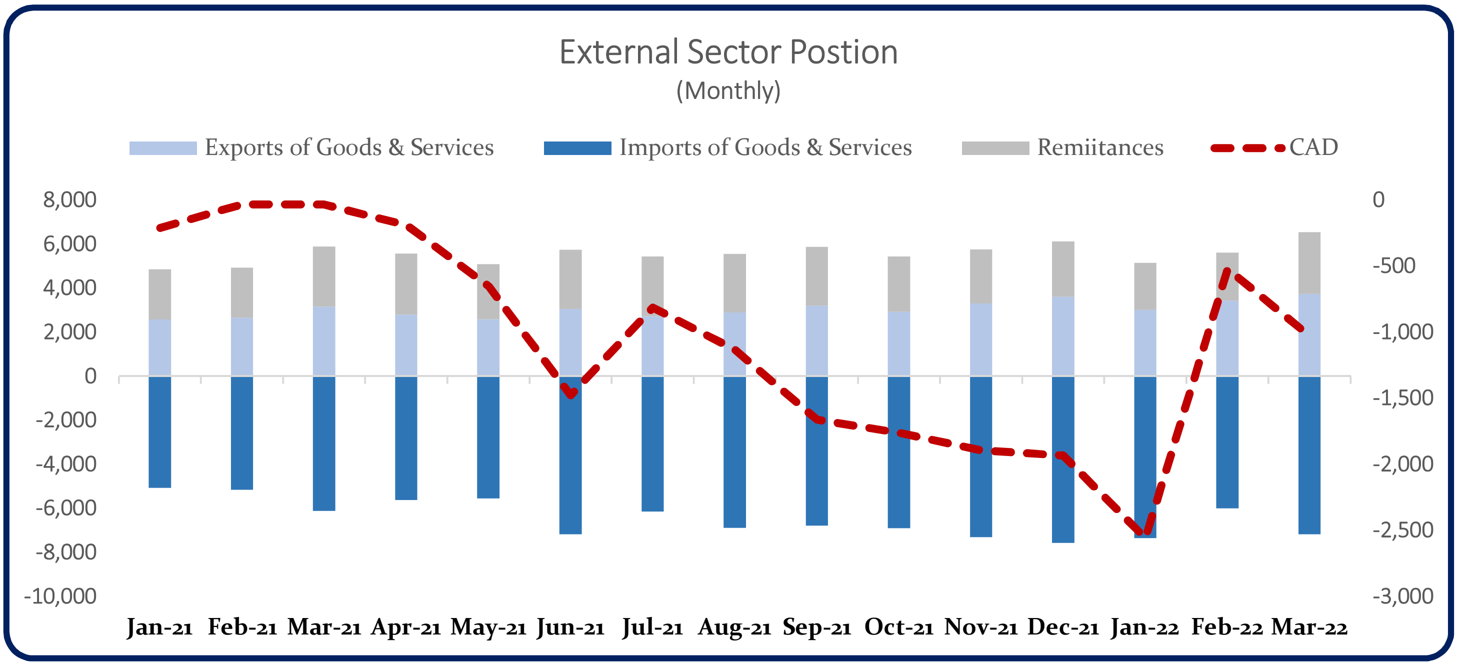


As per the PBS, Pakistan's trade deficit widened by a whopping 70% to $35.52 billion during the period Jul-March FY22 vs. Jul-March FY21 amidst higher import price. As far as Exports concern, it is not looking promising, it has been stagnant to $2.5-2.8 billion, thereby declining by a margin of 1.83% to $2.78 billion vs. February 2022 on a M-o-M basis (still below as compare to November 2021 export which is $2.9 billion). Addionally, the country's trade deficit rose by 20.6% to $3.64 billion during March 2022, compared to $3.02 billion in February 2022. While on a Y-o-Y basis, it has still higher by a margin of 11.5% vs. $3.26 billion in the same month of last FY21.

9. BALANCE OF PAYMENT:

Pakistan's CAD has elevated to an unprecedented level of $1.03 billion in March 2022 as compare to a deficit of $369 million in the same month last year. On a month-on-month basis, it rose by 98.1% compare to deficit of $519 in February 2022. On a cumulative basis from July to March in the ongoing FY22, the CAD soared to $13.17 billion, compared to a minor deficit of $275 million in the same period last year. Moreover, it seems future for CAD remain uncertain due to high volatility of global commodity prices, which make position highly difficult for new regime to settle the external sector position of Pakistan in coming months.

(USD in millions)	July-March FY22 P	July-March FY21
Current account Balance	(13,169)	(275)
Capital Account Balance	169	174
Financial Account Balance	(8,496)	(2,304)
Net FDI in Pakistan	(1,260)	(1,218)
Net Portfolio investment	(183)	290
Net incurrence of Liabilities	9,486	3,104
Overall Balance	5,112	(1,537)
SBP Gross Reserve	12,899	14,906
		(Source: SBP)

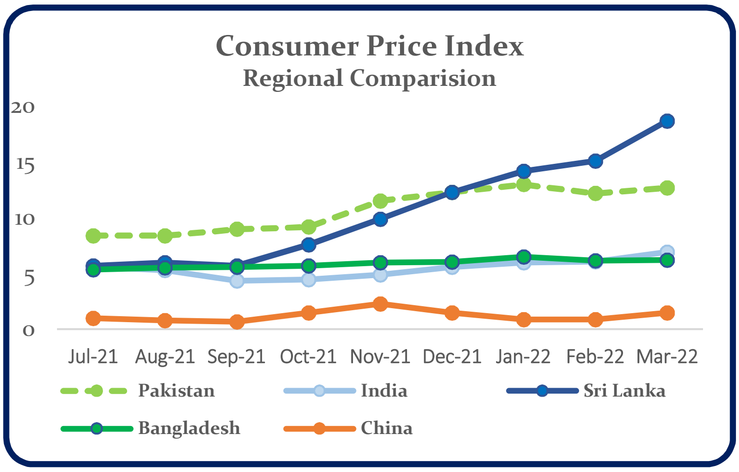


10. Regional Analysis:

On a Y-o-Y basis, the inflation impact in the region is mostly observed in Pakistan and Srilanka. Both the countries 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, 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 who have their own efficient products.

Country	CPI (%)	Local Currency Units per USD (As of 25th April)	Currency Appreciation (Depreciation) % Change Y-o-Y
Pakistan	12.70	185.75	(20.72)
India	6.95	76.47	(2.95)
Bangladesh	6.22	86.20	(1.87)
China	1.5	6.59	1.82
Sri Lanka	18.70	327.08	(70.61)

(Source: Trading Economics)



OUTLOOK:

- The net reserves of SBP continued to fall since March 2022 at a significant pace, down over by $5.32 Billion in just one and half month. 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.
- Owing to the above facts, Pakistan's economic outlook seems to be trapped in a vicious cycle. Dealing with the sharp rise in financing gaps in the Government's budget, as well as soaring debt and inflation, has pushed the economy towards a vulnerable position. Moreover, foreign exchange reserves have depleted, and with that, pressure has mounted on the Pakistani rupee, and business confidence has eroded which can be seen in declining foreign investments share in the real sector of the economy.
- On this havoc situation, Pakistan badly needs to streamline its taxation system in. The Government needs to correct the fractured system of taxation and should remedy the inequity of taxes in Pakistan.
- For the revival of loan tranche which was stalled due to the deviation from commitments in policies with IMF by the last government, now, both Pakistan and the IMF have agreed to start technical level talks this week and the IMF will send a team to Pakistan in mid of May to conclude a staff-level agreement under the EFF program.
- Above all are the consequences of the fact that the economy of Pakistan is living beyond its mean. Pakistan might be moving towards a position whereby it may not be able to honor its external payment liabilities. Hence, we need to get rid of this economic dilemma as quickly as possible. If we do not control these alarming indicators, we might end up in the same situation like what Sri Lankan economy is facing today.
- Tough policy measures is the need of the hour such as, *inter-alia* : (a) Well thought-out Exchange rate policy; (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 in the country.