# PAKONOMICS

August 2022

TOLA ASSOCIATES
TAX & CORPORATE ADVISORS

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## HIGHLIGHTS:

- As per the Asian Development Outlook ("ADO") report, Pakistan's economy may grow by **3.5%** with the average inflation rate up to **18%** in 2023. The GDP and Inflation is projected to be the second lowest and second highest in South Asian region, respectively.
- In the Inter-bank market, the National currency value stood at a level of PKR 237.02/USD as of 26th of September 2022 closing against the US dollar. Since September's first week, the currency parity depreciated significantly against greenback declining from 218/USD.
- Pakistan's Large-Scale Manufacturing ("LSM") growth contracted by 1.4% during July 2022 vs. last year. Whereas, on a Month-on-Month comparison ("M-o-M"), the LSM growth declined by 16.5% compared to the previous month of June 2022 (Base Year 2015-16).
- The cumulative inflow of deposits in the Roshan Digital Accounts ("RDA") reached $4.98 billion at the end of August 2022.
- As per the State Bank of Pakistan ("SBP"), remittances sent by Overseas Pakistani workers increased by 8% on a M-o-M basis to $2.72 billion in August 2022 from $2.52 billion in July 2022.
- According to the official statistics, the Federal Board of Revenue ("FBR") exceeded its monthly tax revenue target of PKR 483 billion for the August 2022 of FY23 by PKR 6 Billion, and collected tax revenue worth PKR 489 billion in August 2022 vs. PKR 433 billion in August 2021. This reflects a growth of almost 13%.
- The net foreign currency reserves held by the SBP stood at $8.35 billion as of 16th September 2022.
- The Broad Money (M2) stock from 1st of July 2022 to 9th September 2022 is contracting to PKR 235 billion as compared to contraction of PKR 194 billion last year in same period.
- According to the Pakistan Bureau of Statistics ("PBS"), the Consumer Price Index ("CPI") inflation surged by 27.3% on a year-on-year ("Y-o-Y") basis in August 2022 vs. 8.40% last year.
- As per the Pakistan Bureau of Statistics ("PBS"), Pakistan's Exports increased by 10.18% to $2.48 billion in August 2022 vs. $2.25 billion in July 2022 on a M-o-M basis.
- Pakistan's net FDI has depreciated by 26% or $60 million to $169.5 million provisionally during Jul-Aug FY23, as compared to $229.5 million during Jul-Aug FY22.
- The total Foreign Investment declined by 90% or $1.04 billion to $144 million on a Y-o-Y basis in Jul-Aug FY23 as against the amount of $1.2 billion in Jul-Aug FY22.
- The country has posted a Current account deficit ("CAD") of $1.918 billion in FY23's Jul-Aug period.

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)** | **July** | ↓ | **(1.4)%** | **4.4%** |
| **Central Government Debt** | **July** | ↑ | **PKR 50.5 Trillion** | **PKR 39.87 Trillion** |
| **Credit to Private Sector** | **Jul – 9th September** | ↓ | **PKR (85) Billion** | **PKR (74) Billion** |
| **Roshan Digital Account** | **August** | ↓ | **US$ 187 Million** | **US$ 245 Million** |
| **Worker's Remittances** | **August** | ↑ | **US $2,724 Million** | **US $2,658 Million** |
| **Currency in Circulation** | **As of 9th September** | ↑ | **PKR 7.87 Trillion** | **PKR 7.18 Trillion** |
| **Net Government Sector borrowing** | **Jul – 9th September** | ↑ | **PKR 255 Billion** | **PKR 39 Billion** |
| **National CPI (Base Year 2015-16)** | **August** | ↑ | **27.30%** | **8.40%** |
| **FBR Tax Collection** | **Jul-Aug** | ↑ | **PKR 948 Billion** | **PKR 850 Billion** |
| **Foreign Exchange Reserves with SBP** | **As of 16th Sept** | ↓ | **$8.35 Billion** | **$19.54 Billion** |
| **Foreign Direct Investments** | **Jul-Aug** | ↓ | **$169.5 Million** | **$229.5 Million** |
| **Trade Deficit in Goods** | **Jul-Aug** | ↓ | **US$ (6.32) Billion** | **US$ (7.57) Billion** |
| **Current Account Deficit** | **Jul-Aug** | ↓ | **$(1,918) Million** | **$(2,374) Million** |

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## 1. LARGE SCALE MANUFACTURING:

According to the PBS, Pakistan's LSM sector showed a contraction of 1.4% in July 2022 on a Y-o-Y basis vs. July 2021 as per the new base year 2015-16. Similarly, on a M-o-M basis, the overall output plunged by a massive 16.5% compared to the month of June 2022. This is the highest contraction in nearly two years; the last time LSM witnessed negative growth was back in August 2020, where growth declined by 9.2% amidst COVID lockdown.

Out of 22 major industries, only 9 industries posted a surge in production during the first month of FY23 as compared to July 2021. These include beverages, wearing apparel, leather products, wood products, iron and steel products, Paper and board, furniture, and other manufacturing (football). However, the output in Food, tobacco, textile, coke and petroleum, chemicals, pharmaceutical, Rubber products, , Non-Metallic Mineral Products, Fabricated Metal, Computer, electronics and Optical products, Electrical Equipment, Machinery and Equipment, Automobiles, and other transport equipment has decreased during July FY23 month under review, compared to the preceding year FY22 same month, data from the PBS has revealed.

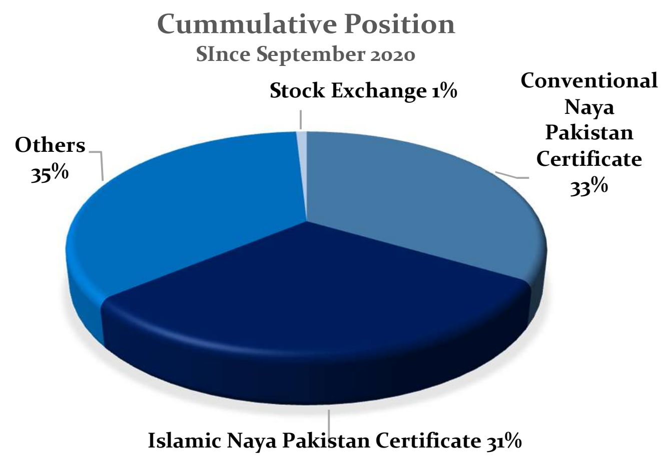
Sector-wise, important groups such as cotton yarn, cotton cloth, and garments rose by 0.02%, 0.03%, and 48.5%, respectively in the period of July 2022. Whereas, the cement industry declined by a mammoth 42%.

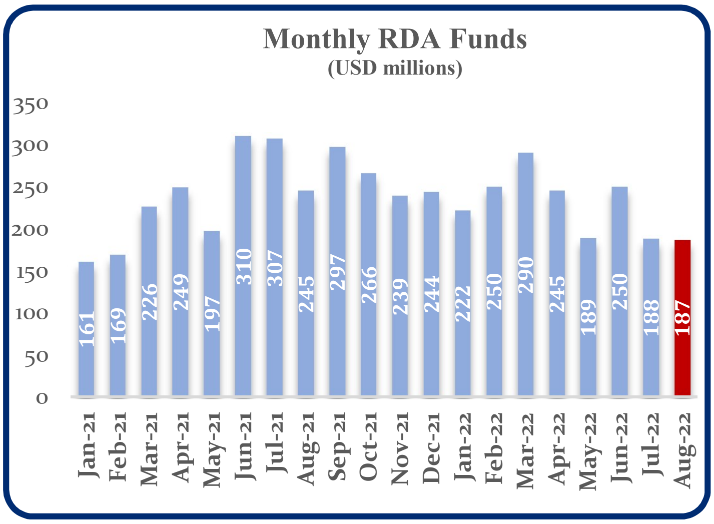
| LSM (%) | Weight | July-22 | June-22 | July-21 | Y/Y growth Cumulative |
|---|---|---|---|---|---|
| **Textile** | **18.2** | (2.2) | (3.6) | 2.6 | **(0.5)** |
| **Food** | **10.7** | (9.3) | (11.4) | 0.9 | **(1.2)** |
| **Coke & Petroleum Products** | **6.7** | (5.2) | (9.2) | (1.8) | **(0.4)** |
| **Chemicals** | **6.5** | (1.3) | 8.7 | 9.4 | **(0.1)** |
| **Wearing Apparel** | **6.1** | 48.5 | 47.1 | 5.5 | **4.4** |
| **Pharmaceuticals** | **5.2** | (35.2) | 86.3 | 4.2 | **(2.2)** |
| **Non-Metallic Minerals Products** | **5.0** | (33.9) | 6.3 | (13.4) | **(2.4)** |
| **Beverages** | **3.8** | 0.3 | 4.4 | 15.0 | **0.02** |
| **Iron and Steel Products** | **3.4** | 13.2 | 14.1 | 12.3 | **0.6** |
| **Automobiles** | **3.1** | (7.4) | 25.2 | 80.4 | **(0.3)** |
| **Tobacco** | **2.1** | (75.5) | 70.4 | (13.7) | **(1.7)** |
| **Electrical Equipment** | **2.0** | (1.6) | 10.8 | 0.2 | **(0.1)** |
| **Paper & Board** | **1.6** | 26.8 | 32.9 | (8.8) | **0.5** |
| **Leather Products** | **1.2** | 16.5 | 2.8 | 10.7 | **0.1** |
| **Other Transport Equipment** | **0.7** | (25.9) | (13.6) | (1.1) | **(0.2)** |
| **LSM Growth for July 2022 (Y/Y)** | | | | | **(1.4)** |
| **LSM Growth of July 2022 vs. June 2022 (M/M)** | | | | | **(16.5)** |

***(Source: PBS)***

## 2. Roshan Digital Account (also referred to as "RDA"):

The cumulative inflows of deposits under the RDA reached $4.98 billion since its announcement in September 2020. Out of the $4.98 billion, approximately to two-thirds, $3.19 billion or 64% have been invested in the Naya Pakistan Certificates ("NPCs"). Some 456,732 accounts have been opened from 175 countries during the span of two years.



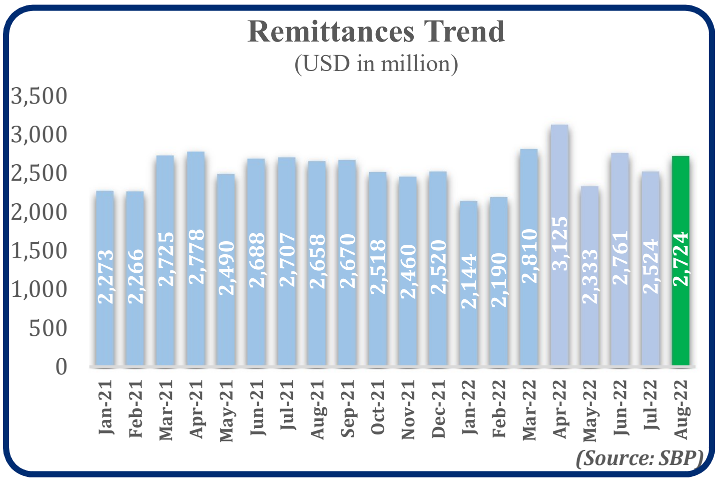



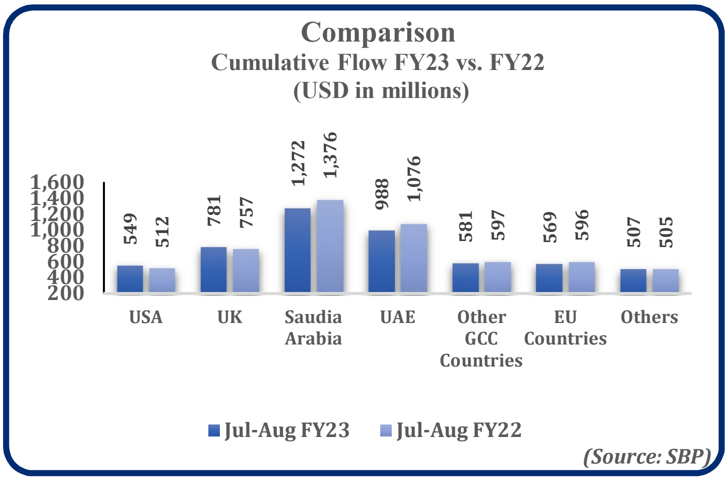

***(Source: SBP)***

## 3. WORKER'S REMITTANCES:

According to the SBP, the remittances sent by Overseas Pakistani workers increased by almost 8% to $2.72 billion in August 2022 vs. $2.52 billion in July 2022 on a M-o-M basis. Similarly, on a Y-o-Y comparison, the inflows went up by 1.54% when compared to $2.68 billion received a year ago in the same month. However, in Jul-Aug period of FY23, inflows declined by 3.2% to $5.25 billion compared to $5.42 billion received a year ago in the same period. Notably, on a cumulative basis, pace of growth in FY23 is in negative compared to the last FY22's Jul-Aug period, where it grew by almost 11.5%.

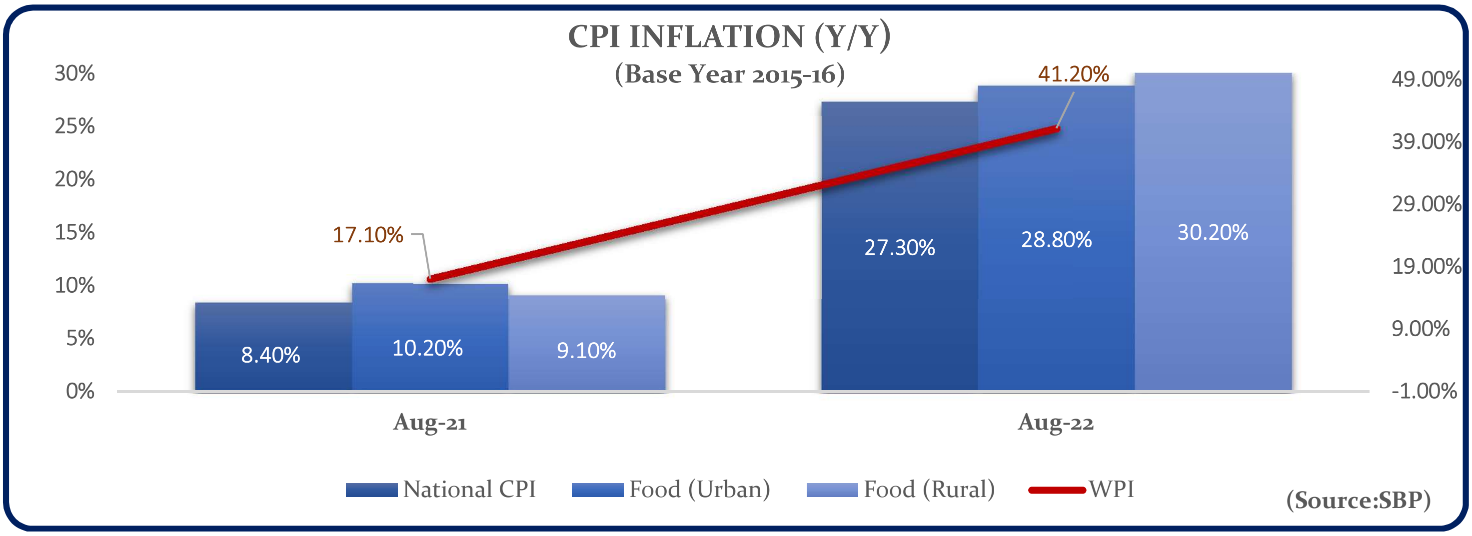
A descriptive analysis has revealed that remittances inflows during the first month of FY23 were coming mainly from four major territories: Saudi Arabia, UAE, UK, and the USA. With a 24% share in overall home remittances flows, Saudi Arabia remained a significant contributor. However, inflows from Saudi Arabia have a negative growth of 7.52% - remittances received were up to $1.72 billion in July-Aug period FY23 vs. $1.38 billion during the same period of FY22. An amount to the tune of $549 million, or a 10.5% share, was received from the US, showing increase of 7.1% in Jul-Aug of FY23 vs. Jul-Aug period of FY22. Worker remittances from the UK increased by 3.2% and contributed almost 15% or $781 million in first two months of FY23 over same period of FY22. On the other hand, remittance growth from UAE declined at a rate of 8.2%, while its share is $988 million or 18.8% in the total remittances received.



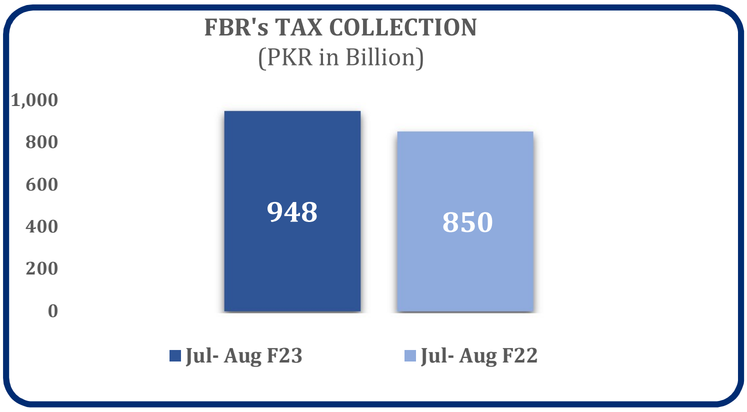




## 4. CONSUMER PRICE INDEX INFLATION:

The National CPI inflation skyrocketed to 27.3% in August 2022 on a Y-o-Y basis, which is the highest inflation in the last 47 years. The pace of inflation might stay in double-digits in the coming months due to the food supply shortage amidst flood hazards in most of the rural areas of Pakistan. Similarly, food inflation in Urban and rural areas accelerated to 28.8% and 30.2%, respectively. In addition to that, the wholesale price index ("WPI") stood at 41.2% on a Y-o-Y basis month wise comparison, eliminating the chances of clipping inflation down. Similarly, on a monthly basis, the National CPI has recorded a rise of 2.4%. Moreover, the Food inflation in urban and rural increased by 2.6% and 2.2%, respectively, comparing to July 2022. During August 2022, the Core inflation, which is calculated on the basis of excluding energy and food items, rose by 13.8% and 16.5% in urban and rural areas on a Y-o-Y basis, respectively.



## 5. FBR TAX REVENUE COLLECTION:

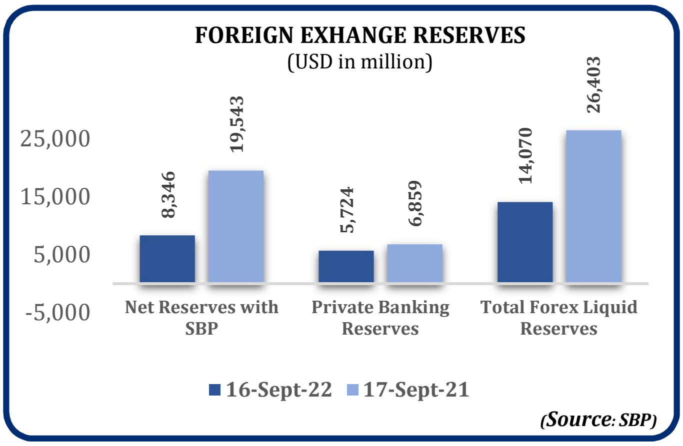



As per the official statistics published by the FBR, the FBR has collected tax revenue worth PKR 489 billion in August 2022 which has exceeded the required target of PKR 483 billion by PKR 6 billion. Moreover, the IMF revised FBR's annual target of tax collection in FY23 to PKR 4.74 trillion from PKR 7 trillion as stated in Ministry of Finance. As per Mr. Shahbaz Rana's article titled "FBR eclipses tax target" published on 31th Aug 2022 in the Express Tribune, out of the PKR 948 billion, the FBR collected PKR 486 billion at the import stage having a share of 51% in Total tax collection. Whereas, the direct collection share was 31% or PKR 343 billion in Jul-Aug FY23 period of the total taxes.

## 6. FOREIGN EXCHANGE RESERVES:

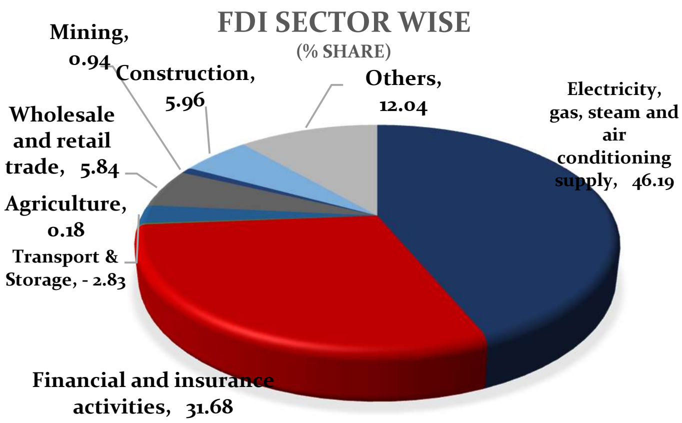
The net reserves of the SBP stood at $8.35 billion as of 16th Sept 2022, decreasing by 3.2% compared with $8.62 billion on 9th Sept 2022. However, when compared to last month reserves which was then $9.33 billion went down massively by 15.34%. The SBP cited "external debt repayment" as the reason behind the decline in reserves.

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 have been declining.

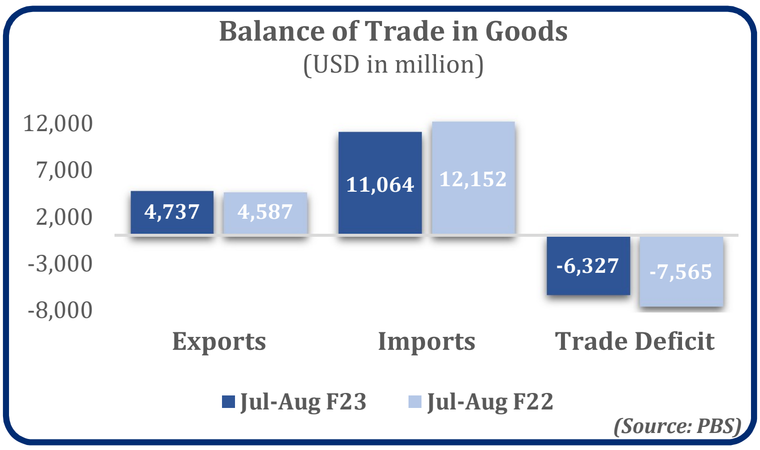



## 7. FOREIGN DIRECT INVESTMENT:

Pakistan's net FDI has depreciated by 26% or $60 million to $169.5 million provisionally during Jul-Aug FY23, as compared to $229.5 million during Jul-Aug FY22. Whereas, the total Foreign Investment declined by 90% or $1.04 billion to $144 million on a Y-o-Y basis in Jul-Aug FY23 as against the amount of $1.2 billion in Jul-Aug FY22. This Pie chart shows the percentage share of flows in different sectors of the Economy in the Jul-Aug FY23.




## 8. BALANCE OF TRADE IN GOODS:

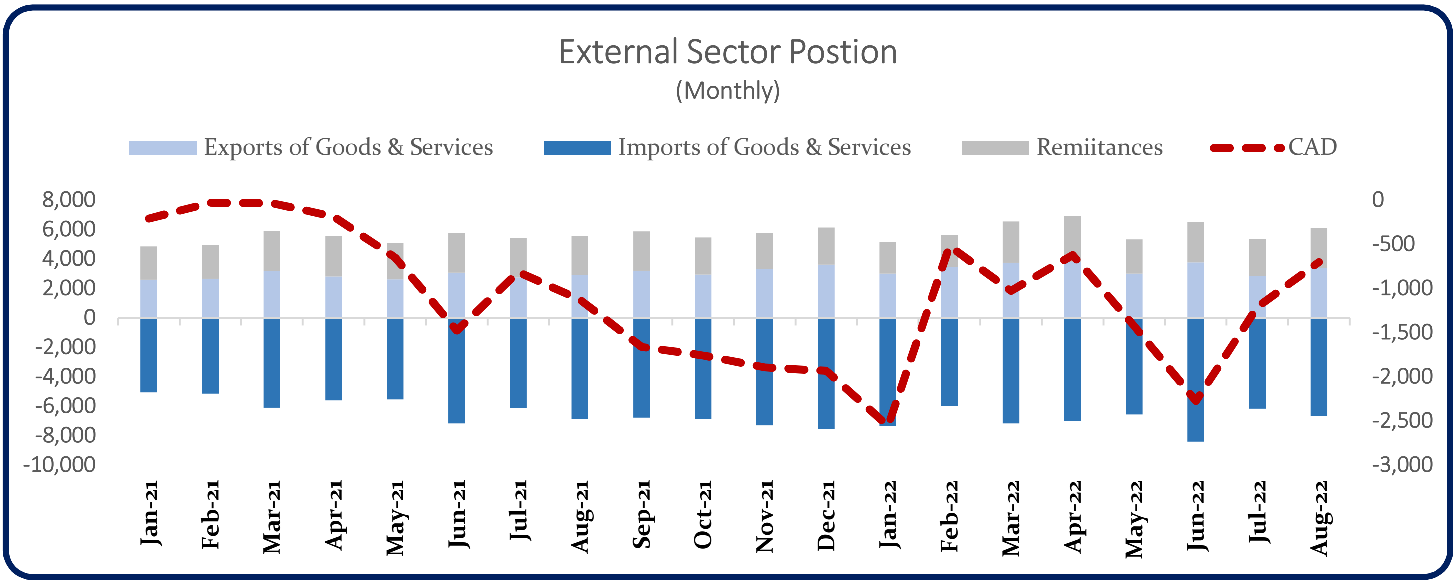



As per the PBS, Pakistan's trade deficit shrunk by a good margin of 16% to $6.33 billion during the period of Jul-Aug of FY23 vs. the same period of FY22 amidst a steep deduction in the import bill. As far as Exports are concerned, it went up by marginally 3.27% to USD 4.74 billion in FY23's period of Jul-Aug compared to USD 4.59 billion in same period of FY21. Similarly, on a monthly basis, the exports increased by 10% to $2.48 in August 2022 from $2.25 billion in July 2022. Addionally, the country's trade deficit surged by a massive margin of 31% to $3.59 in Aug 2022 from $2.74 in July 2022 on a month on month basis.

## 9. BALANCE OF PAYMENT:

Pakistan's CAD has narrowed to a sustainable level of USD 703 million in August 2022 as compared to a deficit of USD 1.22 billion in the last month of July 2022, latest data released by the State Bank of Pakistan ("SBP") showed on Thursday. On a Y-o-Y basis, the CAD shrunk by USD 820 million compare to a deficit of USD 1.21 billion in August 2021. On a cumulative basis from July to August in the ongoing FY23, the CAD declined by USD 456 million to USD 1.9 billion, compared to a relatively large deficit of USD 2.37 billion in the same period last year. If the Government is successful in keeping the CAD bill below USD 1 billion mark monthly, then overall CAD position could decrease to approximately USD 10-12 billion in FY23.

| (USD in millions) | FY23 P (Jul-Aug) | FY22 (Jul-Aug) |
|---|---|---|
| Current account Balance | (1,918) | (2,374) |
| Capital Account Balance | 17 | 29 |
| Financial Account Balance | (498) | (4,913) |
| Net FDI in Pakistan | (102) | (212) |
| Net Portfolio investment | 24 | (951) |
| Net incurrence of Liabilities | 43 | 4,147 |
| Overall Balance | 1,337 | (2,842) |
| SBP Gross Reserve | 8,834 | 20,074 |
| | | *(Source: SBP)* |

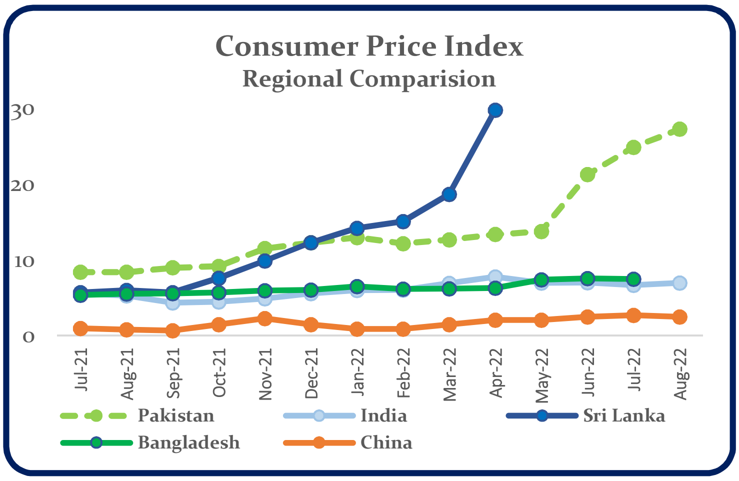



## 10. Regional Analysis:

On a Y-o-Y basis, the inflation impact in the region is mostly observed in Pakistan and Srilanka. Both the countries are facing rampant devaluation of their domestic currency which is ultimately one of the core reason for higher inflation in Pakistan and Sri Lanka. On the other hand, Bangladesh and India have also started facing currency depreciation, and with that impact of rising inflation is also gradually catching up with their economies. In contrast, China have lower CPI 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 26th Sept) | Currency Appreciation (Depreciation) % Change Y-o-Y |
|---|---|---|---|
| Pakistan | 27.3 | 237.0 | (39.6) |
| India | 7.0 | 81.6 | (10.53) |
| Bangladesh | 7.48 | 100.8 | (18.96) |
| China | 2.5 | 7.16 | (10.88) |
| Sri Lanka | 64.3 | 359.0 | (80.4) |

*(Source: Trading Economics)*



## OUTLOOK:

- The acceleration in the rate of inflation is faster since the last seven months in Pakistan. The main fundamental question is whether the rate of inflation will gradually slow down or will it persist during the ongoing FY23 as both IMF and ADB predicts double digit inflation for Pakistan. This might be largely dependent on the future path of the domestic rupee and how the Government deal with the current IMF programme. A high rate of CPI might persist in the case of petroleum products on the back of the Government's commitment of petroleum levy by March 2023. While on the other hand, rise in prices of food and other necessity goods might persist in ongoing fiscal year amidst flood situation in most of the rural parts of the country.
- There will be need for designing an effective exchange rate policy. Pakistan's currency has depreciated by 39.6% on a year on year basis. Since 1st September, Pakistani rupee losing its value against green back by 8.7% till date. The gap between demand and supply of dollar has been soared drastically due to flood in Pakistan. Demand for dollar rises for import of food products. Whereas, textile exporters fear losing orders amid high inflation in the Western countries, which may slow down the inflow of dollars in Pakistan. Pakistan needs to bridge a good trade relation with the neighboring countries in order to fulfil its food demand and needs to find alternate export opportunities.
- The Government of Pakistan's annual plan targets for FY23 of GDP at 5.0%, inflation at 11.5%, and other key indicators seem unrealistic given the ongoing fragile economic situation and political chaos. On the contrary, the IMF has projected in its latest staff level report that, Pakistan's GDP growth at 3.5% and inflation rate at 19.9% for FY23. While, SBP's monetary policy committee hinted in its earlier report that Inflation might persist in the range of **16 to 18 percent**.
- There will be need for designing an effective monetary and fiscal policies. If the CAD is to be restricted to $9.02 billion in FY23, it's only by ensuring that the level of imports of goods does not exceed the sum of exports of goods and workers' remittances in FY23. Achievement of this target will assure that the CAD remains confined to the trade deficit.
- The Government should take measures to help the economy to stabilize and recover, and announce a strategic plan for sustainable economic growth and building foreign reserves instead of looking at friendly countries for bailout packages. Effective policy measures should be, *inter-alia,* the following: (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.